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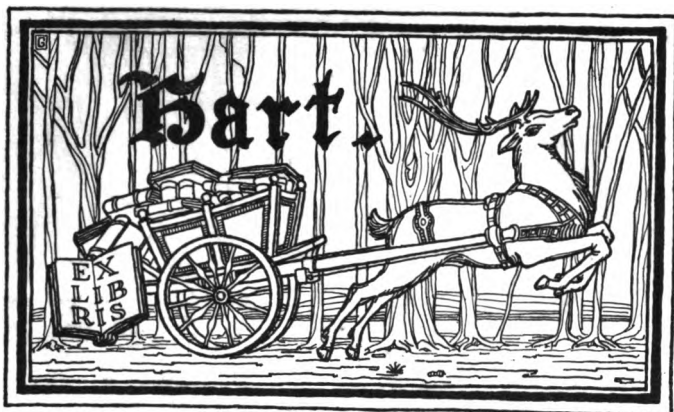
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# AMERICA'S INTERESTS AS AFFECTED BY THE EUROPEAN WAR



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## AMERICA'S INTERNATIONAL TRADE AS AFFECTED BY THE EUROPEAN WAR

BY WILLIAM C. REDFIELD,  
Secretary of Commerce, Washington, D. C.

It is substantially accurate to say that prior to the outbreak of the European war there were three great competitors for the international trade of the world whose position in that trade, measured by the respective shares of business done, were Great Britain, Germany and the United States. We do not ignore the fact that other nations held an important place in the same markets. France, Belgium, Holland, Italy, the Scandinavian countries, all had their share. The business of Belgium was large in proportion to her size. The share of France was one peculiarly individual. No one, however, will deny that the three great nations first named were preëminent among the rest. Each of these three showed certain marked and different characteristics in the competition which they carried on. America was potentially a large exporter of food. During recent times, indeed, when her own crops were short, she imported food largely, but this has been reversed as current records show. Germany was regularly an importer of foodstuffs. England imported a very large portion of her food supply.

The competition on the part of Germany was distinguished by the application of science to business to an unparalleled degree. Her commercial power was based upon research and upon the application of the facts found by research to an extent unknown elsewhere. To this scientific spirit she added thoroughness in organization and preparation. Her men were not only organized but were trained for the contests of commerce as they were for those of war. She presented a spectacle of organized competence, utilizing her resources in men and material more effectively than anyone else. She was steadily building up a great merchant marine as the servant of her commerce and was reaching her financial fingers out into every portion of the world. The commerce of Great Britain lacked the application of science to work. It was not

highly organized in the German sense. It was, however, backed by the largest masses of free capital that the world has ever seen, and her trade flowed normally from English owners in foreign lands to English producers in the home land. Abroad it was financed by British banks controlled by British owners; at sea it was transported by British ships; in London the British foreign banks kept their reserves, and in Great Britain the goods were made by British capital and British labor. It was a British net that was spread out all over the world to get within its folds all that was best commercially. It was backed by commercial courage of the highest order and by tenacity of purpose that was admirable. To both Great Britain and Germany foreign trade was the very essence of prosperity. The organization of the German Empire was operated in its favor. Each nation regarded it as the goal to which its best efforts should be directed. Control of the world's markets was to each of them a supremely important thing.

The third competitor, ourselves, looked on the matter in a very different way. We had neither the capital of Great Britain nor any comparable ownership of enterprises abroad from which we might draw commerce. We had no banks in foreign fields; and few lines of vessels under our own control. We did not use the scientific methods of Germany, and our commerce as a whole lacked organization. It is still the custom of some in our land to speak with a smile of the scientific man as if between him and the practical worker were a great gulf fixed. The union between science and industry is far from complete. One has but to look over the mail of the Bureau of Standards to see how far removed many if not most of our industries are from any touch with scientific research. In this respect there could be no sharper contrast drawn than that between Germany and ourselves, just as in the respect of financial power in the world's markets a similar sharp contrast might have been drawn between Great Britain and ourselves. It would almost seem upon the surface of things as if lacking the scientific application, lacking the organization and the men prepared by training for the work, wanting the investments abroad and the financial institutions in the foreign field which have been the strength of English commerce, trained in large part to believe among ourselves that we could not compete in the foreign markets for various domestic reasons, it would, I say, seem almost impossible for us to enter

the market of open competition with the giants of commerce and win for ourselves a place therein. This, however, would leave out certain elements in the American character quite as effective in their way as the methods and the means used by our competitors.

The American mind is singularly quick and alert. If we lack a highly organized commerce, we in a measure replace it with a highly individualized commerce. We are not bound by precedent or by tradition. For the way things have been done in the past we have as little respect as we have patience for the slow plodding research into final causes. We have a singular mechanical aptitude with great inventive capacity. To see a thing done awakens the desire in us to do it better. This inventive skill and mental alertness, combined with high individual initiative, have carried us far. If to them we shall ever add the scientific outlook and the financial power which our two great competitors have had, we shall go far indeed. It is because in both these respects we seem to be advancing that I feel more hopeful than ever for the building of a great structure of American commerce abroad on a substantial and permanent foundation. Such, briefly and inadequately described, were the three great competitors.

Let us now for the moment consider on what economic basis foreign trade rests. It goes without saying that international trade is of a highly competitive character. The best brains of the most highly developed peoples are active in it. It is an arena for commercial athletes. It calls for the best of brain and body.

Therefore, before going either into review or forecast let us consider some facts about the basis of competition. There are many men who think, or of whom it would perhaps be just to say that they talk as if they thought, that competition is solely a matter of price. The cheapest goods, say they, get the market. Unless, as they believe, one can sell as cheaply as or more cheaply than others, one cannot compete with them. When one hears this view which appears in many forms in press and in talk, one is reminded of the proverb: "All generalizations are false, including this one."

There is so much of truth in the suggestion that price is the essence of competition, and so much of current custom in it, so much of trade actually centers around it that it is easy to overlook the grave errors which so sweeping a generalization involves. There is no one of you who does not frequently buy an article at a higher

price than that at which it is possible to obtain a substitute which might be made to serve. There is no one of you who does not at times prefer cake to crackers. This is because you like the taste of cake. Now the relation of the cake to the crackers is one which illustrates an economic truth. The crackers may do, but you prefer the cake. Stated differently, the element of taste has come in to affect the matter. Undoubtedly it was possible for every one of you to have purchased clothing at less cost than that in which you now make so good an appearance. With the choice before you, however, you have decided to buy that which you now wear. The element of design in fabric and in cut and style of garment, the element of color, the whole wide-reaching element of quality has come in to cause you to pay more than you need have paid for that which would actually serve the physical purpose of clothing. Already in so simple a matter as eating one's supper or attending this meeting there have been developed certain factors in competition other than price, and these factors daily affect your purchases and those of everyone else. You do not always buy the cheapest thing that will serve the purpose. Hence there are different grades of goods, and in saying grades one means not only grades of quality but grades of design and suitability in various ways. If of two articles which are submitted to you for purchase one pleases you and the other does not, you and all your fellows here and abroad will pay more, or at least more willingly, for that which pleases you than you will for that which pleases you not. It follows, therefore, that if I am manufacturing goods for the foreign market there are many things for me to consider beside the sole question—can I undersell my foreign or domestic competitor? As a matter of fact, since you and I choose the thing which pleases us, it is probably true that if one is wise he tries to make that which will please the foreign customer, knowing that by so doing an enhanced price may be had. If one is sure he can please the foreign buyer he may be able by that very fact of pleasing him to ignore at least partially the question of price competition.

We may state the matter differently by saying that in some markets certain designs or colors or widths or textures or weights would not sell at any price at all. The best of men's heavy worsteds or overcoatings would not find a market in Java at five cents a yard. It is appreciated that these statements are elementary, but they are

stated here because it seems as if a number of those who discuss these matters require certain elementary truths. It is not, therefore, the fact that in a factory here or elsewhere it needs to be true in order to develop a foreign trade that one shall make his goods cheaper than goods of a similar class are made by the person or in the country with which one wishes to compete. If it is true, as you all know it to be true, that you will pay for an article which suits you more than you will for one which does not suit you, then it becomes wise for the factory that wishes to compete to find what its customer wants and furnish him that. In so doing it will modify, if not remove, the priority of price as a competing factor.

There are industries in America which do a good foreign business chiefly on the basis of other elements in competition than the price at which the goods are sold. I have always thought it to be a weakness of the protection theory that it necessarily ran on the line of price and could not profess or attempt to be protective of competition as regards quality, design, and many other similar elements which enter constantly and at times controllingly into the processes of trade. One need not be hopeless, therefore, about a future for American international trade even if it were true, which it is not, that American cost of production per unit was equal to or greater than that of every country to which we desire to sell.

It forms no part of my theme today to discuss the broad subject of the relative cost of production in this country and in others. Let us be content with pointing out what nobody ventures to deny, that in many lines of activity we produce the desired result at a lower cost than elsewhere in the world. A striking example is the railway. It will not be denied that railroad wages in America are higher than those in any of the great industrial countries of Europe with which we compete, and that in some respects our equipment is more costly. Neither will anyone deny that American railway freight rates are lower than in any of those countries. There is much loose talk about the cost of operating vessels, but I believe it is correct to say that in three important spheres American vessels are now operating at the lowest cost per ton of freight carried that is known. I think there is no such low cost of carrying bulk freight for similar distances by water by steam as that upon the Great Lakes in the specialized steamers, with the specialized loading and unloading apparatus provided for them, by which our ore and coal and grain



on the Great Lakes are now carried. A possible exception to this may be the second instance, also an American one, namely the carrying of coal on our southern rivers and Gulf from Alabama to New Orleans in specialized power barges. A third instance is the large coasting schooner of the Atlantic which for distances of 250 miles or over is probably the cheapest known form of transportation of large quantities of merchandise. I have often thought that a fleet of steel schooners with auxiliary power constructed for transatlantic voyages would permit of our competing on equal terms as regards cost of transportation with anyone for the class of freight to which such vessels would be suited.

So well known, however, are the facts respecting American costs of production in the places where brains are thoroughly mixed with business and prejudice does not exist in favor of industrial "standing pat," that I need hardly weary you by dwelling on the subject.

American mining machinery is used by foreign-owned mines in the Transvaal. American locomotives pull trains on the railways of many foreign lands. Not long since I was in a factory making articles of women's clothing which sold its goods in fifty countries and which paid, by the way, nearly double the wages paid in certain mills whose owners allege they cannot compete with Europe. It is useless to tell our people that we cannot do that which is daily being done. One cannot see the cargoes outward bound in normal times in our great seaports and look with much patience upon the tales of our inability. I know of no nation of whose industries it can be said that all its factories always produce at lower cost than any factory anywhere else in the world. Neither do I know of any nation where in any industry there are not great inequalities in the cost of production between the most effective and the least effective establishment. There is no such thing as a German basis of cost or an English basis of cost. The costs of production in the industries of those countries are not alike and are changing, some going up, some going down. On the whole, it is true that the application of science to industry in Germany has favored low cost of production. It is because of this that Germany has prospered. She is not a land which, compared with ourselves or the British Empire at large, is one of great natural resources. She must needs draw raw materials for many of her industries from other lands.

It is her commercial triumph that by the application of science to the smallest processes of manufacturing she had won a great place in the world, despite numerous handicaps, by the pure power of brains applied to work. Much discussion proceeds on the basis that cost of production is a fixed thing. It is nowhere fixed. It varies in time and in place everywhere and always. It cannot be predicated that because it is one thing in one mill it is the same in a similar mill near by. This is as true of Germany, of Great Britain, and of France as of the United States.

The various factors described have so operated that both Germany and the United States in the last few decades entered largely into the foreign field and challenged the supremacy of Great Britain therein. It remains to be said that in our own case the change in character as well as in volume of our international trade was striking. We long ago ceased to be chiefly exporters of food and became exporters of manufactures. The group of manufactures in our foreign trade before the war broke out was the largest of all, and in this group the item of fully finished manufactures was the largest and the growing factor. We were, as a matter of fact, in many lands the wide world over competing successfully with Germany and Great Britain in the very field in which they were thought preëminent, namely, the field of manufactures.

Thus stood conditions when the war broke out. It came upon us with a shock and it wrought upon us revolution. The shock is long ago absorbed. The revolution is still going on, bearing us with it. Cautionary signals were not wanting before the stroke of war fell. For about two years before the war the currents of finance, which ordinarily flow out from the treasure centers of Europe into the arteries of commerce throughout the world, were chilled in their courses. The instinct of capital which makes it quick to take alarm felt vaguely that something might be afoot. Hence the arrest of the outward flow and the beginning of an inward one. The tentacles reaching out into all lands grasped such cash as was liquid in them and drew it home and the great reserves of the European continent began to expand and a corresponding depression began to be widely felt. People were not as well able to buy as they had been and therefore less could be sold; enterprise slackened its footsteps and business checked its career. Meanwhile the reserves of Europe grew as if expecting the thing which happened when August

of last year came. At this time we, unlike our competitors, were a debtor nation. They were creditors. It was not in our power to draw from the currents of trade the lifeblood of gold. We, on the other hand, were owing largely both in funded and in floated debt. When the blow smote us it found us unready.

It is not necessary to review the history of the critical months of August and September last. I can never think of this period without thankfulness to the men in private business and finance who with great courage and wise resource pulled us through those trying weeks. I hope they will acknowledge as freely that the government did what it was able then to do to the same end. We are concerned, however, chiefly to consider what the extraordinary change is which has come over the face of our foreign trade since these things were done. A floating debt of perhaps four hundred million dollars has been paid in goods and not in gold. Some of the gold we had exported to pay what we owed before the war has come back to us in payment of debts due to us. We have built up a huge balance of credit. It amounts since the first of December to over six hundred million dollars. We are not struggling now to pay what we owe. We not only owe less than we did but we are spending much less than we were. We are saving money as a nation at an astonishing rate. The nations of the world turn to us for cash. It is probably not too much to say that in direct loans and credits since the war broke out we have, in addition to paying our own floating debt, given financial assistance to others to an extent in excess of two hundred million dollars. The nations turn to us, both belligerent and neutral, not only to furnish them goods but to loan them the money with which to pay for the goods they buy from us. For the first time in your lives you have seen the advertisements of great foreign loans in our daily papers and have known that the money from those loans was to be expended among us for the purchase of the products of our factories. Only the superficial think that the mass of these loans and the bulk of these sales concern munitions of war, as they are called.

We are selling to the neutral peoples great volumes of goods to make good the shortage in the supply they have heretofore taken from other sources now cut off by the war and vast quantities of food both to warring and neutral peoples. Whatever the details, one fact remains clear. We are lending the world money and we are

selling the world goods, and both to such an extent that our foreign financial outlook and the condition of our export trade have taken on within ten months an entirely new significance. That which was strange is becoming familiar. Peoples whom we did not intimately know are borrowing large sums from us and tendering us large orders. A new spirit has come into our commercial life; a new sense of relationship to others and of our power to help them and of our ability to supply them. The change which has come over our commercial life is not unlike that which took place when with the close of the Spanish War we realized that a new vision of our own place in the world had come to us. That was a sense perhaps chiefly of a new political importance in the world's councils. This is a sense of a new financial and industrial power. Would that we had been fully ready for the opportunity. It is our misfortune rather than our fault that at a time when we were struggling hard to pay debts for which creditors were insistent, we were not able to loan largely to those of our sister nations who were needy and who could get funds nowhere else. Not so much in excuse is to be said for our commercial unreadiness to utilize the opportunity. There have not been wanting, indeed, men of light and leading, equipped with knowledge and experience in the foreign field, appreciating its value to our commerce, ready to deal with this crisis in a broad and intelligent way. It is fortunate indeed for us that there have been such and so many of them. The spectacle on the whole, however, has been too much that of industrial inertia—much more concerned with parochial pessimism than with a broad and courageous outlook. Training in national inability had done its work, and when the hour of opportunity struck, relatively few of us were ready to take the step of progress.

Try now, as we have tried, to find trained men of business speaking at least one foreign language well and familiar with the customs of other lands and see how sadly few there are. Go among our industries and test the knowledge of the great world and see how it compares with the thorough training in the German business world. We must not generalize too broadly or forget the many men whom this opportunity has inspired. Yet on the whole there is much that is supine. There is contentment with industrial dependence. If once there could be a year of that devotion which has sent the sons of the belligerents to the war directed in our

own land to pushing forward the power of American commerce and industry throughout the globe, we should alter the face of things in the world's markets. One cannot wisely be pessimistic however. It is perhaps too much to expect that the outlook of our people should change in the mass as rapidly as circumstances themselves have altered. It is a fact that we are looking outward more and more and are less and less nursing our inward and relatively petty troubles. We see in our every morning's mail the cry on the part of commerce and industry for knowledge; the outreach into untried fields. We note with gladness the placing of American banks abroad and we honor the courage and the foresight of the men who do this thing. We see that research is winning her place in our industries and we hope and believe her place is to be a large one. The days of the rule of thumb are passing and it is a good sign that men are sensitive about being inefficient. In all this there are the beginnings of a new and a better day whose sun will see the peaceful flag of America carried on helpful and commercial errands far and wide.

It is, perhaps, nay, it is doubtless, risky to foretell what the ultimate effects of the current war shall be upon our commerce. We know where we were before the war began—a great and growing competitor of others who had many advantages over us. We know where we are now while the war goes on—the one great industrial and commercial country which is at peace and certain to remain so. We know that there is no other land in which a foreign buyer can place an order requiring months for its execution with the reasonable certainty that the alarms of war will not delay it. We know that we are passing over from the debtor to the creditor stage; that our floating debt is paid and much of our funded debt as well, and that we are paying more interest to ourselves and less to others. These things we know and are glad that they are so. No one with vision to see but sees that the United States holds a unique position and one of great dignity in the world today. What shall the future be? This may not be answered broadly, but certain things we think we see are suggestive.

One of our great competitors has for eight months been out of the market. No one has suffered from her competition during that period. Another and a lesser competitor has also been excluded. A third great competitor has been so intensely occupied in the struggle

as to be unable to sustain at highest pitch in other fields the commercial enterprises which have made her great, and a fourth, having much of her industrial territory occupied by hostile troops, is in a measure crippled thereby in her foreign trade. We know that in an industrial organization continuity is a vital factor. One of the weak spots in the factories that pay small wages is the changing character of their working force normal to such conditions, which always means enhanced cost of production. Continuity of operation, keeping the staff together, holding the organization intact, these are cardinal principles of industry. Absence from the market is a hurtful thing. You insure your factory against direct loss by fire and against use and occupancy, but, if you burn, the loss of business during the months taken to rebuild is often serious. Those of our competitors who have been out of business will find it impracticable to pick up the threads just where they were broken. Those of our competitors whose continuity of operation has been broken will find it impracticable to operate soon just as they did before the break. The customers of these nations have not ceased consuming while the nations have been absentees. They have gone elsewhere for the goods they need and they may have found, and doubtless to some degree will have found, goods that please them in the new places. In such a case the work of commercial conquest must be done over if the business is to be turned back into its old channels. It will not be so easy to make the conquest anew if the organization that sustained it in the first instance has ceased to exist and must itself be re-created.

Two factors then will affect America favorably in the coming days. One is the loss of good will by her competitors through enforced absence from business. The other is the injury to her competitors through broken or suspended organization. This is not all. The organization in many cases has not only been broken or suspended but the units which composed it have been slain. It would be hard to find a factory in the belligerent lands which, were all its former staff called to assemble today, would not have many gaps in the ranks. This would be true both of the working and the managing staff. Many a trained hand and many a guiding brain are gone and others are going. Bad as are the loss of good will and the disruption of organization, far worse is the loss of the skilled hand and the trained mind. These are not to be replaced by going

into the market places. They must be found and taught anew. It must in this connection be remembered that the fighting forces have consisted of men, many if not most of whom were at the height of their earning power, and that the economic loss is not to be reckoned as so many human units merely but at the loss of productive power which these particular units represent.

War has this stupendous folly that it destroys most rapidly those we need the most. This process has already gone on to a frightful cost. It continues. What the end may be no one can say save only this that so far as it goes it means growing a greater weakness. Every day means a loss of good will. Every day means more cost from the broken organization. Every day destroys the material with which alone that organization is in time to be replaced. In many an industrial center factories and their equipment have been physically destroyed, and where all was industry nothing tangible survives. Here must an industry be built anew from the very ground, and when it is built must take up anew the work of making its place in the world under the conditions we have described. There has been enormous waste of things which must be replaced, and, ere the normal currents of business can flow, millions must be spent to provide the means of transit and exchange. Some of the fighting nations have thus far escaped in any large measure the actual physical destruction of their industries. What shall be done to them before the war shall end one cannot say. So far as this goes it means building up from the bottom with painful steps and slow that which was before lusty and full grown. The circumstances under which this rebuilding shall be done, whether it be the rebuilding of the physical factory or of the entire good will or the broken organization, whether, I say, it be one or all of these, and it must in most cases be at least two of them and in many cases all, will be circumstances of peculiar hardship.

No one will deny that taxes will be heavier after the war or that before the war they were deemed burdensome and now are to be more so. The price must be paid and it can only be paid by taxation. More will therefore be taken out of purses that are more nearly empty than they were before with which to pay the cost of the frightful folly in which men have indulged. The purses will be more nearly empty, I have said, because capital—the people's savings, the nation's wealth—has been wasted in destruction as

never before. Even to the victor the cost of victory will be enormous, and to those who besides have lost home and furniture and workshop and equipment and many things else, who live in the towns or villages that have ceased to be, to them there must be poverty indeed. The debt must, however, be paid, and there will be less with which to pay it and capital will not be had at the same price to restore a ruined industry at which it could be had to keep that same industry moving in the prosperous days of yore. Say what he will, cheer himself as he may, the manager of industry in the belligerent countries knows very well that his future path is no easy one. If it be his ill fortune to be in the very seat of war itself, the task will be slow and serious indeed. How long it may take will depend upon the extent to which the process of destruction goes on. A single bomb may in a moment destroy that which a year will hardly replace. A single bullet may as truly destroy the highly specialized brain which cannot be replaced. We have no precedents on which to go, for there has not been a world-wide war since the industrial system was founded. But we may be reasonably sure that the recovery will be not sudden but slow and that its possibility and degree will depend upon the extent of exhaustion which the combatants permit themselves.

We may not deny that incidental advantages may come of great value to one or another of the belligerents which will in a measure compensate in time for the sacrifices made. We are, of course, familiar with the wonderful recoveries our own cities have made from overwhelming disaster. The new San Francisco, to which many are flocking now, is a marvel of the time. Nevertheless, the loss of the old remains a true loss, absorbed indeed by the abounding economic power of our people, but we should have been just so much richer had it not happened. I take it, the loss in San Francisco, great and painful as it was and not to be minimized or mentioned lightly, was yet by comparison trivial to that which weekly has gone on for many months abroad with added elements of economic weakness which make the situation worse than at first it seemed.

The suggestion of incidental advantages that may grow out of the war leads to some interesting speculations. How, for example, is Africa to be affected? The projected Cape to Cairo railway, now in operation for long distances northward from the south and south-



ward from the north, seemed to find an obstacle in the conditions near Lake Tanganyika. This great inland sea, four hundred miles in length and but about thirty wide, touches British territory indeed at both extremes, but its entire western front is Belgian territory (the Kongo), and its eastern shore was German territory (German East Africa). Were either of these powers hostile, the line of communication might be cut, and under present conditions it would be seriously threatened had it been built. Is one of the results of the war to be the removal of these restraints and the assurance that the great railway may safely proceed through its entire course? What about crossing Africa from east to west? The last link in the line of railway and steamship communication from the Atlantic to the Belgian frontier of the Kongo at Lake Tanganyika was completed but a few weeks since. A German railway through German East Africa now runs from Tanganyika to the sea. It is therefore now physically possible to cross the African continent by rail and steam. Part of the line, however, is in the territory of a nation hostile to that which owns the rest. Is one of the results of the war to be the setting free of this great transcontinental route from the restraints which are now imposed upon it?

Are we to see the release of Russia from the restraints that have hitherto always bound her? Are the Dardanelles and Bosphorus to be open doors, wide apart without restraint, to the commerce of the great Russian people? Are her wheat and oil and other products to be free from all hindrance henceforth by this route?

Finally, and not least important, turning to Asia, what is to become of the Bagdad railroad? Something like a thousand miles of it have been built by German capital. Its eastern outlet on the Persian Gulf is now held by the British. Cyprus and Egypt, British possessions, are near its western terminal. A glance at the map will show this to be a short line to India which would economize greatly over the passage through the Red Sea and around Arabia. Is India to be thus moved a day or two nearer Europe, and another portion of the burden of distance taken away?

It hardly needs to be said that any one of these things will have far-reaching importance and all of them seem to be among the cards on the table waiting to be played. If all of them are cast into the crucible of progress to come forth in useful form, they are quite as

likely to affect the commerce of the world and with it that of America as seriously as did the Suez or the Panama Canal.

What the effect of all these conditions upon American international trade is to be cannot be limited or defined, but it would seem plain that our resources are undiminished, our capital secure, our labor safe, that we are saving when others are losing, that we are living when others are dying, that with us the path is upward and with them it is in large measure downward. It seems certain that one result is to be our own greater industrial independence. We have learned that for us to depend upon any one foreign source of supply for articles of necessity is to be in a position at once dangerous, expensive and humiliating. We shall hardly be content to rest long in such a position now that our notice has been sharply directed to it. I hope we shall include among the humiliations thus to be thrown off that of depending upon others for the transportation of our sea-borne trade. It is not fit that the commerce which is of our very life should be in the control of others than ourselves. We have been of late, but we ought not to be, depending upon foreign navies for the privilege of transporting the goods which it was necessary for us both to buy and sell. This fact, once known and realized among us, will not long continue to exist among a proud and self-reliant people.

I do not forget the ideals for which the combatants fight nor underestimate the really spiritual forces which are the impetus to the strife for these ideals. There is a side of war in its devotion to cause and country, in its willingness to spend all for what that country needs, and in its heroism which is strong and fine. Nevertheless, we are speaking of trade, and economic destruction is not made good even with the highest ideals save over long years of atonement.

It seems clear to me that if we do our part we shall change our place among the great competitors. The world is never the economic gainer in the last analysis by war. The losses must be absorbed and we must do our share of absorbing, but in the process of absorption places relative to one another may be exchanged. No one, I think, would be surprised to find the United States second in the world's competition, nor, if the war shall long continue, be astonished to find her first. It depends, of course, not merely on what is destructively done yonder but on what is constructively done here.

If we are willing to lay aside passion and prejudice and partisanship, to look at things with an international instead of a parochial viewpoint, to realize that effectiveness is patriotism and that inefficiency is unpatriotic; if we are ready to give up inertia and take a step forward out of ourselves to the help of others; if we remember that commerce is mutual exchange to mutual benefit and not a species of industrial war; if we can learn the lesson that the well-paid workman is the cheapest producer and that science must be applied to industry if we are to win; if these things can be done I see no reason why, with our resources and intelligence and organization, we may not become the first among the world's great trading nations. We shall have to give up a good deal if we are to reach that goal. We must abandon mutual distrust and pull together. We must not think that gain made in any way that greed may dictate is a thing that the conscience and spirit of America will permit. We must remember that in industry a social wrong makes no economic right and that factories cannot be so operated as to injure our fellow creatures for our own personal gain. The men and the women in the mill and the children kept out of the mill must have their chance. We shall not gain by grinding, but by growing. The law of grasp and gouge is not the law of business permanence. That which is socially undesirable cannot continue commercially profitable. We cannot win in the world's markets by driving men and women employed at the lowest market rate that poverty requires them to accept, but by leading our fellow men in such wise that their responsiveness to our leadership will draw forth rewards for them adequate, yes, ample, and for those who lead returns beyond their dreams in personal power and in filled purses, too. For our beloved country the result of these conditions would be that supremacy in the world of which we dream, for which we pray, and of which we hope that it shall be peaceful because it is powerful and powerful because it is filled with the spirit of peace.

## THE FUTURE OF AMERICA'S FOREIGN TRADE

BY THEODORE H. PRICE,

New York.

The future of any trade or business is dependent upon two factors that are fundamental. One is the cost of producing the things that are to be sold, and the other is the need for them and the purchasing power of those who are likely to feel that need.

In regard to America's ability to produce the raw material, of which two-thirds of our export trade has hitherto been composed, at a cost which will enable us to compete successfully with the rest of the world, there can be little doubt.

We shall doubtless continue to be able to produce cotton, corn, wheat, tobacco and other agricultural staples just as cheaply as they can be grown elsewhere.

There is a fear that after the war is over, and the millions of men now at the front have returned to peaceful industry, we shall be unable to compete with the cheap labor of Europe, and that in consequence we shall lose whatever trade in manufactured goods we may have been able to develop during the military preoccupation of Germany, France and England, who are our chief competitors. It is because of this fear and upon this theory that the voice of the Protectionist is already heard in the land, urging that a high tariff shall be re-enacted so that our home demand may at least be preserved for American industry.

Whether the apprehension that is professed with regard to the possible effect of the war in reducing the cost of manufacturing abroad is justifiable, it is difficult to say. We are facing unprecedented conditions, and the outcome is almost beyond human ken. It has been calculated that if the war lasts a year, or until the first of August next, the national debt of the belligerent nations will approximate \$42,000,000,000. Adding to this the indebtedness of cities and other political sub-divisions of the countries at war, there is a total of probably not less than fifty billions of dollars, the interest on, and amortization of, which will have to be provided for

by taxes, which will be laid upon an aggregate population of about 350,000,000 persons. This population, therefore, faces an indebtedness of about \$150 per capita.

The United States Department of Commerce has just completed an investigation into the national, state and municipal indebtedness of the United States. Its figures indicate that the total political debt of this country less sinking funds, *i.e.* net debt, is \$4,850,460,713. This debt is distributed as follows:

|                                |                 |
|--------------------------------|-----------------|
| Federal . . . . .              | \$1,028,564,055 |
| States . . . . .               | 345,942,305     |
| Counties, cities, etc. . . . . | 3,475,954,353   |
|                                | <hr/>           |
|                                | \$4,850,460,713 |

The total is equal to about \$48.50 per capita for a population estimated at one hundred millions.

This comparison between the political debt of Europe and that of the United States is introduced because it brings into relief the most important question to be considered in connection with the future, not only of American trade, but of trade throughout the world. This question briefly stated is: Are the people of Europe willing and able to submit to the heavy taxation which will be necessary to support the integrity of the enormous debt with which the war has saddled them and their posterity? If not, a partial or entire default will occur, and the result will be general financial demoralization, which will restrict trade throughout the world, whether it be intranational or international.

There are, however, two different methods which may be followed by nations which find themselves unable to meet their political or national debts. One is direct repudiation and formal refusal to pay. The adoption of this method seems unlikely. The other is inflation, or the legalization of an irredeemable paper currency, which gradually depreciates in value as compared with real property and so defers or gradually wipes out the obligations of the issuing government to its creditors. Unless this paper currency be ultimately redeemed in gold, the effect is a cancellation of the obligations of the debtor to the creditor class and a confession of practical bankruptcy.

As a matter of fact, gold is now at a premium in all the countries

of Europe, and although specie payment is nominally maintained in Great Britain, it is conceded that unless the war is soon ended a suspension of the Bank Act will be necessary to protect the reserve of the Bank of England, which is already down to less than 19 per cent.

To the practical mind, the immediate future of America's trade as affected by the war is, therefore, largely dependent upon the effect of European inflation upon trade in general.

Fortunately, we are not without precedents in considering the effect of inflation. It has been frequently resorted to. In nearly every case it has given a fevered impulse to speculation and has advanced the price of commodities and labor very rapidly. In his book on *Crises and Depressions*, Senator Burton says:

As affecting crises, inflation of the currency stimulates the speculative fever and promotes unprofitable enterprises. It is particularly true that, if irredeemable paper money is issued in any considerable quantity, prices are sure to rise. An unnatural rise in prices is the most fruitful parent of injudicious investment. Investors do not stop to think that while an article may bring many more dollars than before, the dollar has not the same purchasing power. The result of inflation was never better illustrated than in the period during and after the late Civil War. An increase in nominal values was caused by the large increase in paper money. This created a desire for new and, in many cases, useless undertakings. In the eight years from 1866 to 1873, inclusive, a greater mileage of railways was built than from the completion of the first railway in the United States in 1830 to the end of 1865. Many of these were commenced after the premium on gold had fallen, and prices were more nearly normal; but the buoyant spirit of enterprise, which had been stimulated by rising prices and unusual profits, still continued, and resulted in the severest crises this country ever experienced.

If the experience of the United States during the time when gold was at a premium here is a precedent upon which we may base a prophecy as to the effect of similar conditions in Europe, it seems reasonable to expect that the next four or five years will be a period of advancing prices for both commodities and labor in Europe, and that this advance will enormously stimulate speculation in the purchase of both necessary and unnecessary things.

Beyond this, no one, who has respect for his own reputation, or a consciousness of his mental limitations, can undertake to forecast the future, and even a prediction which looks no farther ahead than four or five years, implies no little temerity in him who attempts it. It may be remarked, however, that in the past, one effect of inflation has always been to permanently advance the wages of labor in the

country where it prevailed, and that thereafter it has been found difficult, if not impossible, to reduce them, even though specie payment was ultimately reestablished. The inflation of our currency during the Civil War greatly advanced the wages paid for all sorts of human energy, and they have never since been seriously reduced, although the purchasing power of the "Green-back" dollar was greatly increased by the disappearance of the premium on gold and the final resumption of specie payment in 1879.

It may therefore be possible, and it seems not improbable, that the effect of inflation in Europe will be to permanently raise wages there and so dispel the fear that we shall be unable to meet the competition of the "pauper labor of Europe" in supplying the domestic, as well as the foreign, demand for our manufactured goods.

What may happen when the "Butcher's bill" comes to be paid, if it is ever really paid, with things of value that are the product of human energy, I confess myself unable to foresee. The war promises to unloose so many social, political and financial factors that have hitherto been inoperative or suppressed, if not unthought of, that only a rash philosopher would be bold enough to dogmatize with regard to the distant future.

That future may reveal to us the existence of a "fourth dimension" in political economy, that we are at present unable to visualize, and it may be that with an expanded vision we shall be able to see that the progress of humanity has been helped rather than hindered by a struggle which has thus far disappointed the pessimists and defied the economist in its effect upon America's affairs.

Since the foregoing was written, the following correspondence of the Associated Press, dated London, April 17, has been published in the *New York Times* of April 28. It indicates that the advance in wages which is nearly always incidental to great wars has already commenced to be felt.

War as a wage raiser has brought to a considerable proportion of the laboring classes in England some compensation for the increased cost of living. Social workers estimate that the increased cost of living average is at least 10 per cent while the average increase in wages is not over 5 per cent. The plentiful supply of overtime work available in most trades makes it easy for most workmen to more than even matters.

The upward tendency of the English workingman's wages was very marked in March. According to the official Board of Trade reports, the increases granted

during the month reached a total of nearly \$365,000. The number of work-people who shared the increases was 440,000.

Increased wages in some of the leading branches of industry are summed up briefly as follows:

Railwaymen—All around increase of 75 cents a week.

Longshoremen—Increases varying from 25 cents to \$2 a week.

Policemen—War bonus of 75 cents a week upward.

Carpenters—War bonus of \$1 to \$1.50 a week.

General Laborers—Increase of 75 cents to \$1.50 a week.

Miners—Employers generally offer 10 per cent advance in pay; miners demand 20 per cent.

Postal Employees, including Telephone and Telegraph Workers—Increase of \$1 a week has been demanded.

Gas Workers—Increases averaging \$1 a week.

Bakers—Increase of \$1.25 a week asked, but employers' offer of 75 cents accepted pending negotiations.

Textile Workers—Bonus for overtime work in factories doing work on army clothing.

Boot and Shoe Workers—War bonus of 5 to 10 per cent granted in some places.

Coopersmiths—Average wage before war, \$9; now \$12.50.

Clerks—Some increases; 180,000 grocers' assistants have asked a readjustment of wages; similar movements pending in other branches.

Engineering and Building Trade Workers—Some sections have secured substantial increases.

The number of unemployed in Great Britain shows a large falling off the past February and March as compared with the corresponding months of last year. The Board of Trade's labor gazette prints statistics from the government's 403 labor exchanges, according to which there were 87,004 names on the register last month as against 100,616 for February and 123,714 for March of last year.

The number of vacancies in employment reported to the exchanges also shows an increase over the late winter of 1914, having a daily average of 5,746, or a hundred more than the average for February and 1,600 more than the average for March of last year.

London passed through the winter with fewer cases of destitution demanding relief from the Poor Funds than any winter within the memory of the present Poor Law officials.



# THE EFFECT OF THE EUROPEAN WAR ON AMERICA'S TRADE WITH INDIA

BY DANIEL FOLKMAR,

Editor of *Handbook of India*, Department of Commerce.

Fifteen years ago I heard a distinguished geographer lecture in Paris on the Pacific as the future center of the world's commerce. That is what I want to preach, the gospel of the future of the Far East and of the New Pacific. It can be more easily grasped today than fifteen years ago, for since then the Canal has been dug and Japan has beaten Russia and risen to a place of first importance in deciding the destiny of nations. Japan has forged ahead in our international trade until it takes one-half of all the goods we send to Asia. China comes next, and has vaster possibilities than Japan.

British India stands third among the countries of Asia as a buyer of American goods and is the farthest of the Far East from our shores. It is exactly half-way around the globe from the United States, east and west, and because of its position on the Indian Ocean it must perhaps be considered a permanent appendage of Europe commercially rather than an integral part in the trade of the New Pacific. Yet our trade with India is already of vast importance, and a study of it during the last few months of the war is interesting as an example of the general condition which the European catastrophe has brought on throughout the entire civilized world. It illustrates the results of the stoppage of shipping, especially during the cruise of the *Emden* in Indian waters, the disturbance of financial and general industrial conditions through interference with production in Europe and abroad, and the embargoes laid upon certain exports and imports by England. I also find in a study of the most recent figures, some of which are herewith published for the first time, a complete demonstration not only of the decrease in trade during the first months of the war but of a decided increase during the last month or two as compared with previous years. An interesting question suggests itself:—may this not be one of the cases in which an expected permanent loss in the trade of Germany and Austria is already being diverted to the

United States? And is it not possible that the far greater trade of England in India will be diverted in some measure to this country? In the case of England this may not be because of the war so much as because of serious opposition in India itself to trade with Great Britain, which is just now becoming manifest under the name of the Swadeshi movement.

While the Swadeshi movement was directed in the first place against all foreign goods and strove for the upbuilding of native industries, it is becoming directed against England more and more in the hands of political agitators and revolutionists in India, and to some extent in favor of American trade. I do not know the relation of Prince Sarath Ghosh to the Swadeshi movement, but I heard a significant statement from him, as an expert student of the economic history and industries of his native country. In a recent address in America, he said:

Our importations from England, first, then from Germany, France and Austria, were tremendous. Now the market is open for other goods, and if America seizes the opportunity she can hold much of this trade. You are looking to South America for your market. Meanwhile, you overlook India, where more than 300,000,000 people are making surprising strides in civilization, so that their needs far outstrip the present importations. . . . There are the many products we bought from England and the Continental nations. We must look elsewhere for chemicals, medicine, drugs, machinery, building materials, and scores of other manufactured products. Wonderful opportunities await the alert American merchant.

Notwithstanding the advantage England has over other countries in obtaining the trade of India, British India is already one of the nine or ten greatest purchasers of American goods outside of Europe. In fact, there are only ten countries in Europe which buy more from us annually than does India. But this gives no indication of the vastness of India as a market and the possibilities in the increase of American trade in that country, for the United Kingdom holds at present 70 per cent of its import trade, and, in fact, more than 95 per cent of the Indian purchases in the largest line, that of cotton piece goods.

India has always cut a figure of first importance in the trade of the world. Students of Indian trade point out that the rulers and governments that have controlled it have become the wealthiest of the world. India in 1910 ranked eighth in the list of all importing countries and eleventh in the list of the exporting countries of the

world. India's purchases of British exports were equal to the purchases of Canada, Australia, South Africa and New Zealand, combined. The total import trade of India from Great Britain amounts to \$330,000,000 per year, of which more than \$180,000,000 is for cotton goods. India takes two-fifths of the entire value of the exports of Great Britain to all countries.

This is all the more astonishing when the poverty of the masses of India is taken into account. The purchasing power per capita is only \$2 as compared with \$80 in Australia. This indicates the inevitable character of the greater part of India's purchases. Goods must be cheap. But the total profit is immense because the 300,000,000 of India's population must be clothed—largely with the products of foreign cotton mills—and must have simple agricultural tools and even large amounts of machinery for the equipment of native industries.

### *India As a Buyer of American Goods*

The great proportions that American trade has already reached in India will be better realized from the following details:

British India is the largest buyer in the world of our cheapest cotton goods, excepting only China—I am speaking of our \$15,000,000 export of unbleached cottons. British India, including Aden, which politically belongs to British India, takes one and a half times as much of our unbleached cottons as all South American countries combined. India buys more than \$3,000,000 worth of our iron and steel manufactures and more than \$3,000,000 worth of our petroleum. Among all the countries of the world, India stands tenth in rank as a purchaser of our lamp oils, and sixth in rank as a purchaser of our lubricating oils, the purchases of the latter amounting to more than \$1,000,000 per year. In this line India is equalled as a buyer by only one South American country, Argentina.

As to the particular lines of iron and steel manufactures purchased by India, only one other country, Canada, buys so much hoop and band iron from the United States as India; only three other countries buy more wire nails from us than India; only five other countries buy more non-galvanized iron sheets and plates from us; only eight other countries take a larger share of our \$16,000,000 export of structural iron and steel—including one country in South

America; only ten other countries buy as much of our \$5,000,000 or \$6,000,000 export of tin plate as India; and only ten other countries buy as much structural machinery as India out of our total export of \$8,000,000.

Even our tools are used in India in great numbers. For example, our saws—outside of Europe, India is one of the twelve largest purchasers from us in the world; and of our miscellaneous tools, amounting to an export of \$8,000,000, only five other non-European countries buy so largely from us as India. The same is true of wire: before the war, at least, India bought more barbed wire from us than any country in Europe, except England. Even our patent medicines, typewriters, and automobiles go in amazingly large proportions to India. Only six other countries have taken so much of our total export of \$7,000,000 worth of patent medicines; only twelve other countries have taken so many typewriters—which might have been thought to be a luxury rather than a necessity in so polyglot and primitive a country as is India; and as regards the most notorious luxury of the age, automobiles, India was one of the fifteen largest purchasers of our total exportation of \$21,000,000. Last of all, I will mention a significant and unexpected fact: of our total export of \$3,000,000 worth of lamps, no country in the world bought so many as India, with the one exception of Canada, which is, of course, commercially a part of ourselves.

India is today the world's greatest buyer of the goods upon which America's future development largely depends, that is, certain manufactured products. India is the greatest foreign purchaser of European manufactures. It has been evident for many years that America's trend in commerce has been away from the agricultural exporting business of the earlier years and in the direction of increased production and trade in large manufactures. India, as an agricultural nation, must buy what America most wants to sell as a growing manufacturing nation. It is simply a case of bringing together the buyer and the seller.

Much has been said about capturing South American trade. India has 300,000,000 inhabitants that must be clothed and provided with a wide range of manufactured goods, while South America's population is less than 50,000,000. India has vast wealth inherited from preceding generations and is the most densely populated portion of the globe; South America is as yet the most thinly

populated great division. In railroad mileage India stands fourth among the great countries of the world, ranking below only the United States, Russia and Germany. India has more railroads than Canada, or Great Britain and Ireland; more than all the other countries of Asia combined.

The imports of British India in the fiscal year 1913-1914 amounted to \$752,000,000, and the exports to \$831,000,000. Of the imports, 36 per cent were cotton goods, a line in which the United States is rapidly increasing its production, while its possibilities as the chief cotton producer of the world are almost unlimited. Second in order in the value of India's imports are metals; manufactures of iron and steel form about 9 per cent of the total imports. Thus about 45 per cent of the total imports of British India last year were composed of the classes of articles for which the United States has special facilities of production and ranks among the world's greatest producers, and more than three-fourths of the imports of India were of the classes of merchandise which the United States produces and exports. Yet in spite of this fact, less than 9 per cent of India's imports in 1913-1914 were from the United States.

The exports of the United States to India are increasing more rapidly in value than the imports, although they are much less in value than the imports. According to the official statistics of the United States, imports from British India increased only from \$48,000,000 in 1902 to \$50,000,000 in 1912, while the exports from the United States to India more than trebled in size in the same ten years, rising from a total of \$4,600,000 in 1902 to \$15,600,000 in 1912. The total imports of India from all countries by sea reached the astounding total of \$752,000,000 in 1914, and its exports a total of \$831,000,000. "The wealth of the Indies" is the only phrase that adequately describes it.

*Principal and Permanent Effect of the War—Loss of Trade with Germany and Austria*

What has been and will be the effect of the war on this enormous trade, especially as concerns the United States? The immediate effect is of small consequence, compared with the final effect, which is sure to come, except in so far as the former indicates the

latter. The final effect that we can clearly foresee is the permanent loss of trade which Germany and its allies will suffer in India as a British possession. England will never let it "come back." Other belligerents also may lose some of their Indian trade permanently to the United States, especially Belgium; possibly also, France. Even England may lose portions of her Indian trade if the United States gets a good start on it during the war; for example, in cotton goods, which you will remember is the chief trade, and even more certainly in those manufactures of iron and steel and machinery in which the United States naturally excels. I do not need to recapitulate our natural advantages over competing trade, residing in our iron and coal fields and the cheaper methods of production which are being introduced, and especially in the natural genius for invention which the world recognizes in America, which has grown in part out of the necessities of a new country, and which has enabled us already to lead the world in agricultural machinery and similar products that characterize America. Desperately as our trade is handicapped at present by the lack of American shipping, this will right itself in time. Our other delinquencies also will be overcome. We shall learn how to adapt our manufactures to the peculiar demands of such great buyers as India and how to pack and mark our goods as England, and particularly Germany, have learned to do, and how to best extend our trade by sending representatives abroad; and when advertising and commercial travellers and commission houses and especially, in India, English houses, will not in the nature of the case extend the sale of American goods as branch American houses, and more adequate organization may do.

What will be our chief gain in India from the war? Note that the three belligerents which will naturally have lost the most of their trade with India have exported four times as much merchandise to that country as did the United States. In other words, first in rank after Great Britain's share in the total imports into British India stood Germany, sending about 7 per cent of the total; and then the United States, Austria-Hungary and Belgium, all nearly even in rank (the United States 2.6 per cent; Austria-Hungary and Belgium, 2.3 per cent each); then came France, contributing only 1.5 per cent of India's imports, and Italy, contributing 1.2 per cent. Germany has been the most important recent competitor of Great Britain in Indian trade. The increase in

German sales of metals, cottons, woolens, hardware and cutlery, machinery, glass and glassware, and paper, was considerable. Germany, next to Austria-Hungary, easily competed in the glass trades. Of Belgium's exports of about \$14,000,000 worth of goods to India annually, many were goods of German origin. The articles from Belgium which showed considerable increases recently were: cotton goods, coal-tar dyes and iron and steel. The coal-tar dyes purchased in India were, of course, mainly German. The steel trade of Belgium with India was the trade which Great Britain had recently most to fear. It consisted chiefly of bars and channel steel.

Excepting Germany and Belgium, other countries of the continent had but a small foothold in the Indian import trade. Austria-Hungary exported only \$10,000,000 or \$15,000,000 worth of goods per year. At times half of this amount was in sugar. Other lines of some importance were glassware, hardware and cutlery, and cotton manufactures. The smaller sales of France in British India amounted to \$6,000,000 or \$7,000,000 per year, consisting mainly of liquors, clothing, woolens and silks. The only other trade worthy of particular notice is that of Japan. Its sales to India have increased greatly, nearly doubling in five years. They amount to more than \$15,000,000, more than one-third in 1913 being silk manufactures. Other leading items were cotton hosiery, metals and matches.

The British and Indian governments have been quick to see the opportunities resulting from Germany's loss in Indian trade and have issued a Blue Book covering the subject. I repeat some figures from it, which sums up the situation during the first months of the war. The figures given are for the calendar year 1913 and the official year ended March 31, 1914:

The total Indian imports from Germany and Austria in 1913 were valued at \$55,000,000, which was more than one-tenth as much as all the imports into India from all other parts of the world. In other words, of India's total import trade in private merchandise in 1913-1914, nearly 7 per cent was with Germany and 2.3 per cent with Austria-Hungary. At least 75 per cent of Germany's imports into India were of goods such as the United States should be able to sell. Thirty per cent of her sales were of metals, including manufactures; 11 per cent were of cotton manufactures; and 8.5 per cent were of woolens: these three items making a total of exactly 50 per cent of the goods sold by Germany to India and

being in lines in which we are best able to compete. Smaller items among the imports from Germany are: hardware, machinery and millwork, railway plant and rolling stock, oils, glass and glassware, haberdashery and millinery, paper and pasteboard, liquors, and silk manufactures, the last and smallest item amounting to less than 2 per cent of the total and the other items being in lines which interest us. The only important line of imports in which Germany has been above competition as a manufacturer has been that of dyes; her sales of dyes into India amounted to 7.4 per cent of the total imports into India from Germany.

India's imports from Austria-Hungary are perhaps of less interest to us, for the largest item, one-third of the entire import, is sugar. Items interesting to us are: glass and glassware, 20 per cent; cotton goods and hardware, 8 per cent each; and haberdashery, 5 per cent. These five items cover three-fourths of Austria-Hungary's sales to India.

Put into dollars, the principal imports into India from Germany that may interest us were as follows: metals (excluding ores), \$12,524,000, of which mixed copper or yellow metal for sheeting was the largest item, amounting to \$3,280,000; cotton manufactures, \$4,596,000, including blankets, \$2,054,000, colored piece goods, \$1,187,000, and hosiery, handkerchiefs and shawls, \$1,071,000; woolens, \$3,484,000, mainly shawls and piece goods; and hardware, machinery and millwork, railway plant and rolling stock, amounting to \$4,725,000. Germany even sold miscellaneous kinds of mineral oils to India amounting to \$1,049,000. Minor imports from Germany which are worthy of notice comprised: engines, electrical and musical instruments, gold, silver, and embroidery thread, cement, bricks, umbrellas, stationery, biscuits and cakes, condensed milk, ivory, furniture mouldings, paints, starch and farina, artificial and mineral manures, motor cars and wagons and clocks and other timepieces.

The values of India's principal imports from Austria-Hungary during the period 1913-1914 were as follows: sugar (16 D. S. and above), \$4,487,000; glass and glassware, \$2,837,000, composed principally of glass bangles; cotton goods, \$1,095,000, principally colored and printed piece goods; and hardware, \$1,085,000, principally unenumerated iron ware. Minor items are: haberdashery and millinery, German silver, nails and rivets, stationery, writing



paper and envelopes, woolen piece goods, safety matches and wearing apparel. Still less in value among imports from Austria-Hungary were: hosiery, strong boxes of metal, iron and knitting wool, timber, electrical instruments, boots and shoes of other material than leather, nails and warp, earthenware and soap.

The total number of vessels cleared at British Indian ports to Germany in 1913-1914 was 163; the total number cleared to Austria-Hungary was 108. While these figures look large compared with American shipping to India, they form only 6 per cent of the total number of vessels which cleared British Indian ports during the year.

#### *Immediate Effect of the War—Freight Increases*

Let us turn now to the latest official information regarding the immediate effect of the war on our trade with India. Before quoting the latest American figures available at the Department of Commerce I may say in short that they disclose a rapid increase in trade in January and February as compared with all previous trade, in spite of the decreased trade of the six months ending in December. This increase in the last two months' trade comes despite the fact that shipping facilities between America and India have been worse during these months. The vessels cleared at United States ports for India in January had only half the tonnage of those cleared in January a year ago; the vessels cleared in February, 1915, had but little over a third of the tonnage of the clearances of February, 1914.

This deficiency in shipping is accompanied by gradually increased freight rates and is part of a world-wide situation which need be referred to but briefly and which may be vividly illustrated by consular reports received within the last week. I should premise this showing with the statement that there is at present but one line making direct trips between America and India, the American and Indian line, since the German Hansa line, which was the principal line for direct shipments before the war, is, of course, unable to continue in the trade, and a considerable number of British steamers formerly engaged in direct service between the United States and India have been requisitioned by the British authorities.

It will also be remembered that the German cruiser *Emden* exercised a disastrous material as well as moral effect upon shipping with India early in the war, having even bombarded the port of Madras. The consul at Madras reported that as a result of the official announcement made early in November of the destruction of the *Emden*, two steamers immediately cleared from the port, both of which carried large shipments for the United States.

New freight rates to the Far East amounting to an increase of forty per cent over the rates obtaining before the war were announced a week ago in the daily publication of the Department of Commerce in a report from the consul general at Hongkong. Similar rates have been agreed upon by way of both the Panama and Suez Canals, effective as of April 1. This includes an increase of ten per cent made in the rates soon after the opening of hostilities in Europe. The reasons given for this increase apply to shipping everywhere: the disappearance of German and Austrian vessels from the sea, the use of a large number of British, French and other vessels for transport service or as auxiliary cruisers, and the demand for tonnage otherwise for war purposes.

The reasons for the crisis in Far Eastern shipping are given fully in a memorandum read at a joint meeting of chambers of commerce in Manila thus:

1. The whole large German mercantile fleet is at present either captured or interned in neutral ports. While a few of the captured vessels have already been made available by the allied governments for mercantile purposes, these boats are being used by the Allies themselves for transport purposes.

2. The allied governments have requisitioned a large proportion of the better class of mercantile tonnage for war purposes.

3. For some four or five months some of the main French and British ports have been closed to commercial work, and the remaining ports have been unable to handle the enormous amounts of produce and foodstuffs which have been poured into them. This has caused delay of as much as two months in the discharge of the steamers, and has prevented them from being able to get back to producing countries to load new cargoes.

4. The causes above stated have led to the comparatively small number of neutral vessels being chartered at high rates to go on long trips to Europe, and have thereby cleared the Orient of vessels it depended upon for the shorter trades. The usual supply of Japanese steamers which could formerly be called upon in case of stringency is finding profitable employment partly in these long European charters and partly in its own special work.

The result of this situation in the Philippines is that

in Iloilo thousands of tons of sugar are pouring into the market without not only tonnage to move it, but enough warehouses to store it. The steamers now serving the Islands leave them full to their utmost capacity. The irony of fate is that there are seventeen German freight and passenger steamers interned in Manila Harbor waiting the end of the war.

The memorandum further stated that freight rates from the Philippines to the United States had increased about threefold, on hemp increasing from \$15 per ton last year to \$45 per ton at the present time, and on sugar from \$7.50 per ton last year to \$20 per ton at present.

*Trade Decreases During Six Months, Then Increases*

As I have indicated, notwithstanding the increased freight rates, our export trade with India (excluding kerosene), increased 12 per cent in January, 1915, as compared with January, 1914, and 5 per cent in February, 1915, as compared with February, 1914. This shows a revival in trade following the serious decrease of 7 per cent in our export trade with India during the preceding six months (as compared with the six months ended December 31, 1913). The following figures for January and February apply to the port of New York only, and, together with some of the details for the preceding six months, are from the unpublished customs returns in the Department of Commerce.

It is interesting to note that the increased trade in January and February was largely in the same classes of merchandise that show a falling off in the trade of the preceding six months. Among such articles may be singled out, for instance: plows and cultivators, patent medicines, brushes, unbleached cottons, insulated electrical appliances and motors, bottles and miscellaneous glassware, household goods, bolts and hinges, firearms, iron pipes and miscellaneous manufactures of iron and steel. Many other American manufactures show an increased exportation from the United States to British India even during the first period of six months, as: miscellaneous agricultural implements, of which \$20,198 worth were exported from American ports in the six months ended December 31, 1914, more than three times the value exported during the corresponding period in 1913, and this was followed in January

with an exportation valued at \$4,093 as compared with an export of only \$347 in January, 1914. Other large increases in exports from the United States to India during last January or February as compared with the same months in 1914 were in: oatmeal and other food preparations, lubricating grease, belting, automobile tires, steel bars, metal-working machinery, wire, miscellaneous machines and surgical appliances.

There were many other articles in which our exportations decreased during the first months of the war and had not yet recovered in February. I cite only: illuminating oil, mowers and reapers, passenger automobiles (these decreased from \$239,775 to \$99,441 in the six months' period already cited, slightly decreased in January and decreased again to one-half the exportation of a year ago in February), motor-cycles and miscellaneous vehicles, certain minor cotton manufactures, electrical appliances, medical, optical and other instruments, razors and miscellaneous cutlery, stationary and traction engines, mining machinery, typewriters (our export of \$132,842 worth in July to December 1913, fell to \$93,957 worth during the same months of 1914 but nearly recovered their normal value in January and February), steel plates (the exports of steel sheets increased), axes, saws and other tools, barbed wire, lamps (the sales during the six months' period in 1913 totaled \$314,685, but fell to less than one-third of this sum in the last six months of 1914), men's shoes, harness and saddlery, rosin, spirits of turpentine (a small decrease, the export for the half year being about \$12,000 in each case), paint and varnish, playing cards (we sold over \$20,000 worth during the half year in question), leaf tobacco and cigarettes (exports of plug have increased during the war excepting in January), and, finally, fir lumber (nearly \$100,000 worth being sold in the last six months of 1913 and about one-tenth of this in the same period in 1914). These, I repeat, are articles of which our exports decreased, as might be expected, as a result of the war.

Our trade with India was in some respects more adversely affected by the war than our trade with the world at large—the belligerent powers always excepted—although not so seriously affected, for example, as our trade with South America. Both our imports and our exports in trade with India in January of this year amounted to about 70 per cent of the value of the correspond-

ing trade of January of last year, while, including the United Kingdom, our imports to all countries in January, 1915, were about 80 per cent of the corresponding imports of 1914 and our exports reached the large volume of 130 per cent of the January exports of 1914. Again, during the seven months ended January 31, 1915, our imports from British India ran about as in January, 70 per cent of the imports of the preceding year, while our imports to all countries, including the United Kingdom, were 87 per cent of those for the corresponding period in 1914; but our exports to British India during this period of seven months ran even with our exports to all other countries during the corresponding period. In other words, our exports during the last seven months ended in January were 90 per cent as large as those of the corresponding months of 1914, both in the case of India and of all countries combined.

Our trade with South America shows greater fluctuations than our trade with India. Our imports from South America show an increase of 118 per cent, whether comparing the seven months' periods as before or comparing January last with January of 1914. On the contrary, however, our exports to South America show the smallest per cent I have yet given, a fall to 56 per cent, comparing the seven months ending in January each year. They show a more favorable figure, that is a fall to 81 per cent, comparing the months of January, 1914 and 1915.

In conclusion, I have shown, I think, that the door of opportunity stands wide open at the present moment for great trade with India and that the opportunity will be vastly greater when the shipping problem is solved, as we must and will solve it. I have shown that it is one of the greatest trades of the world; that it is of greater importance, in many respects, in its future possibilities than our trade with South America; and that it makes a special appeal to America as an integral factor of the age-long campaign which we must enter upon in order to sustain our natural dominance in the commerce of the Far East and of the New Pacific, the future center and chief arena, says the Paris savant, of the commerce of the world.

## TRADE POSSIBILITIES IN GERMANY AND AUSTRIA

BY ISAAC WOLF, JR.,

President of the American Association of Commerce and Trade, Berlin.

American business men as a class, whether they are doing business in Germany or not, or whether they have in the past had any German trade at all or not, should awaken to the fact that the greatest chance for trade expansion is going to come to the United States as a result of this war, and that this chance for trade expansion is with Germany and Austria.

Americans are talking a lot about the opportunities for trade expansion with South America presented by the war. But there is nothing heard of the far more important field afforded by Germany and Austria. South America has a population of about 35,000,000. Germany and Austria have a combined population of about 115,000,000.

The manufacturers of the United States should arouse themselves to the fact that the Teutonic allies are going to offer a superb market for American goods in consequence of the war. The goods which were hitherto imported from Great Britain and her colonies, from France and from Russia, can in large measure, be supplied hereafter by the manufacturers of the United States if American business men will once understand that there is to be a vast market presented in those countries.

The question is often asked, "What goods will sell well in Germany?" In general any manufacture of first class quality will sell in Germany. When this war is over Germany will need almost all kinds of goods and it will be good time to get into the German market and we shall find Germany one of the best foreign markets. In general, a firm going into the German market should have its own special representative—this special representative will be found to be the connecting line between producer and consumer. This applies to doing business with most countries. The first requisite of foreign trade is superiority of goods. There is no reason why American textiles, especially hosiery and knit goods, in which branches we have made great strides, should not compete with those

of German make. There will always be articles with which we cannot compete, otherwise trade ceases to be reciprocal. The sale of American footwear in Germany has increased about half a million during the past year. Our tanning processes are said to be superior to the German and we are also very careful to put good stock into our footwear. American fur-trimmed clothing could be exported with profit, as furs are cheaper with us—provided however, we consult the tastes of our customers. In hides and leather, also in woolen goods, we could compete. In manufactures of paper we are in many respects ahead of Germany as to variety of good designs and uses to which we put paper—these are finding a ready market in Germany. Instead of importing made-up cotton goods from Germany, we ought to export them and supply our own needs from our own mills. American ready-made suits for men and boys are a new article for Germany and are selling well at present in the department stores in Berlin, where also American collars, cuffs and shirts are marketed. This is a branch that would not fail of a good sale; to be sure we already have our goods there, but in small quantities only. A German collar sells for a quarter, so that there ought to be a good profit. Other things that could be sold in such a store are travelers' requisites and every requisite for a gentleman's outfit, and American steel office furniture. Little attempt has been made to sell office furniture, only one American firm, so far as I know, having made an attempt. Our state department at Washington has lately been in the habit of furnishing its offices abroad with this kind of furniture, a practical advertisement if pointed out to visitors. There are many other articles which would sell well in Germany.

During the few months I have been in the United States the usual greeting I receive is, "Well, you are lucky to get away from Germany just at this time." I mention this as indicative of the erroneous impression concerning present conditions in Germany. I say erroneous—because if you were in the city of Berlin today, you would not imagine that the country is engaged in one of the most formidable wars Germany ever undertook. It is remarkable to what extent normal conditions have been maintained in Berlin since the beginning of hostilities. You see just as many able-bodied men on the streets, you see just as many ladies doing their shopping as ever, you will find the cafés and confectioners as frequented as ever, only you will find the Germans quieter and more

subdued as a natural result of the terrible sacrifices almost every family is making.

The retail stores, especially the great department stores, are still doing a good business. Electric and other power cabs are still running, although in reduced numbers owing to the lack of chauffeurs. The auto omnibuses, however, are running regularly on all lines. A small number of the wives of conductors on the surface lines have been given the places of their husbands, who have gone to the front. Factories, other than those for military needs, are working on half-time, half-wages and half-force. Merchants are meeting their liabilities as in times of peace and there is no moratorium. Everyone is trying his or her best to bridge over the business situation. Those working for the army, in any capacity, are making hay while the sun shines, and the average shoemaker, saddler and petty tailor have for years not reaped such golden harvests as at the present time. Latest statistics show that the improvement of the labor question is making steady strides and the number of unemployed is not as large as might be expected. Of course taking 5,000,000 men for the army lessens the number of mouths to be fed at home.

### *The Industrial Situation*

It is unnecessary to remark that industrial activity underwent many limitations during the days of mobilization, but assumed fairly normal shape after concentration of the military forces. No slack was experienced by the industries connected with the production of food products. The metal and clothing industries are, on the whole, engaged to their full capacity. During the months of September and October the following industries increased their activity and output: the metal, chemical, textile, clothing, leather goods and printing industries.

### *Prices of Foodstuffs*

The harvests in Germany last fall were almost normal. The yield of rye exceeded that of previous years by a million and a half hundredweight, and rye forms the staple article of food. All the crops were harvested expeditiously by aid of the pupils in the higher classes of the schools and the seeding next spring will probably be done by the same persons.



In October the federal council prescribed maximum prices for wheat, to take effect November 4. The maximum price for home-grown rye differs somewhat in the various provinces, but keeps within the limit of between 209 and 237 marks per ton. The maximum price for home-grown wheat amounts to 40 marks more than for rye. The object of these fixed maximum prices is to insure steady provision of food for the population at normal prices.

In scrutinizing the future of American exports into Germany, it can safely be said at the outset that soon after the war a tremendous boom may be expected. Three conditions, however, govern this desirable and hoped-for situation, *viz.*:

First, that the friendly political relations of old between America and Germany continue;

Second, that the same commercial relations continue, unharmed on either side by prejudice or envy;

Third, that American exporters deal with their German customers direct.

In regard to the first item, any sane person does not expect anything but continuation of the old, never disturbed friendship between the two countries.

The second item calls for tolerance on the part of both countries, and efforts in this direction, combined with intelligent study, in order to widen the export possibilities, will surely lead to splendid results.

The third item represents but natural results of the attitude of the English government which now prohibits any commercial intercourse with Germany. American exporters, who have given sales privileges for continental Europe to business houses in England, will in the future have to do their business with the representatives in Germany direct.

## COÖPERATION IN EXPORT TRADE

BY WILLIAM S. KIES,

Of the National City Bank of New York.

Organized effort in any line generally succeeds over individual endeavor. Particularly is this true in the contest between nations for commercial supremacy. In highly competitive markets success is attained by the country whose forces of production are most efficiently organized, whose financial resources are capable of the quickest mobilization, and whose sales campaigns reflect intelligent collective effort.

The best example of national achievement resulting from intelligent coördination of efforts is that of Germany. Twenty-five years ago Germany set for herself the task of building up her foreign trade. Her economists saw clearly that national wealth and prosperity were the sure rewards of a successful foreign commerce; that selling to other nations, in return for their raw materials, the products of factory and workshop, meant a permanent income to Germany from the labor and skill of her citizens, and that the value added by the processes of manufacture gave to her either a call upon the gold supply of the world or the option of a credit which could be used in the purchase of foodstuffs or other raw materials. Germany went about the matter in a thoroughly scientific manner. An intensive investigation of the possibilities of the various markets of the world was begun. The characteristics, customs, manners and wants of her future customers were carefully studied in an endeavor to ascertain what goods were desired and those for which a demand could be created. There was to be no attempt to force upon people what they did not want.

Coöperative societies were organized for the advancement of export trade. Chambers of commerce, which were active bodies and not paper organizations, collected data and information for the benefit of all interested.

The government, keenly alive to the fact that commercial supremacy means national power and greatness, shaped its export policies along broad and constructive lines. Export trade needed

encouragement; consequently drawbacks and export bounties were provided. The merchant marine needed to be built up; subsidies were voted. Manufacturing towns distant from the ports were at a disadvantage in the matter of railroad rates; the rates were forthwith adjusted so as to encourage manufacturing for export. Foreign trade had to be financed. Branch banks, under liberal banking laws, were established and became active agencies for promoting trade in foreign countries. In order to safeguard the domestic market, a protective tariff was instituted. To assist the German manufacturer to compete with others efficiency methods became the subject of careful study, and when it was demonstrated that combination meant lessened waste, greater concentration of effort, and more effective production, combination was encouraged. Price agreements, to avoid wasteful competition at home and abroad, were recognized as necessary and made legal. If, in order to meet the competition of other nations in foreign markets, it was necessary to sell below the price prevailing in the domestic market, a public opinion was created which applauded such a course as entirely patriotic, in that the greater the sale of German products abroad the nearer would German manufacturing establishments approach capacity production, and capacity production was early realized by German efficiency experts as the best means of reducing economic waste in production and lowering the unit cost of the products.

Germany saw that successful cultivation of foreign markets must be based upon a thorough knowledge of foreign countries. She planned an educational system for her youth whereby they were taught commercial geography, the business languages, and the financial customs and manners of different peoples, and her young men were encouraged to go into different parts of the world as commercial missionaries to convert the consumer into a user of German goods.

The United States has been given by nature all of the resources necessary to build a great manufacturing nation. We have iron, timber and other building materials with which to construct factories and workshops. We have water power and coal in abundance. We raise in this country vast quantities of raw materials. Not only do we supply our own manufacturing establishments, but each year we export millions of dollars worth of such raw materials to other countries, and we have the power to increase indefi-

nately such production. With these advantages in our favor, the United States should become the greatest manufacturing nation of all times.

We have made great progress in recent years, and the percentage of increase in the export of manufactured articles was greater in the period of 1900 to 1912 than that of Great Britain or Germany, but if the figures for oil, steel products, refined copper and agricultural machinery be deducted, the remaining totals would not be encouraging.

A study of our export figures indicates that the greatest progress in the development of foreign fields has been made by reason of an intensive study of markets and an intelligent organization of sales forces on the part of great industrial corporations like The United States Steel Corporation, The International Harvester Company, The Standard Oil Company, and the selling companies representing the refined copper interests. What has been done in Germany on a national scale, through the coöperative efforts of all classes, with the encouragement of the government, has been accomplished by these large American corporations without government encouragement, and entirely as a result of the skill and ingenuity of the American sales manager with a large vision and a constructive imagination.

In the last few years, however, public opinion, if it has been correctly reflected in recent governmental action and in legislation, has decreed that large combinations of industrial units shall no longer exist, and that production shall be carried on by smaller units, actively competing with each other, irrespective of the economic waste resulting from competitive methods, the duplication of sales organizations, advertising and promotional expenses, and overhead costs in general.

We are in the midst of this period of disorganization of the forces of industry at the exact moment when there is presented to this nation an opportunity which will probably never again come in its history—an opportunity for introducing American goods in markets hitherto closed to this country. Admittedly, the tremendous power developed by great combinations of capital has been in numerous instances abused, and the economic value to the nation of highly organized instrumentalities of production has been lost sight of in the popular indignation aroused as a result of the exposure

of abuse of power, and the injury done by unfair practices to competitors. But we are too often extremists. Our tariff is either unreasonably high or ruinously low. We stubbornly refuse to adjust it scientifically through the agency of a board of experts. We permit our railroads and public service corporations a free rein, and when the abuses which such a policy fosters are brought home, we proceed to hamper their usefulness and to block their growth and development by the passage of unscientific restrictive laws, and by over-regulation on the part of many state commissions. Too often we seem to prefer to tear up by the roots rather than to use the pruning knife. And so in dealing with our trust problem we have refused to recognize the great advantages of concentration of effort in production, and the economies which come with efficient organization. We have been willing to sacrifice all this rather than to attempt, by intelligent, constructive legislation, to preserve that which is economically sound.

The Sherman Act forbids combinations in restraint of trade, or which would tend to restrict competition in foreign and domestic commerce. The recently enacted anti-trust acts do not change the terms of the Sherman Act, but have provided a Federal Trade Commission with very large inquisitorial powers, which, while not endowed with the functions of a court of last resort, nevertheless will have a large influence in determining the boundaries within which coöperative effort may safely be carried on.

The Commission, since its organization, has shown a keen interest in the subject of foreign trade, and, judging from the character of its membership, may be expected to do all within its power toward aiding in the development of constructive plans for building up our foreign commerce.

It is plain, from the experience of Germany and England, that material progress in the development of foreign commerce depends upon coöperative effort, not only between manufacturers, but between the government and those interested in foreign trade. Within the limits of the trust laws, the government has shown a most laudable coöperative spirit. The Department of Commerce is doing splendid work, and the present chief of the Bureau of Foreign and Domestic Commerce has built up an organization of experts who are giving real service to our manufacturers. The Treasury Department has applied itself to the study of the financial needs of the South

American countries, with the desire of being helpful, and is working along constructive lines.

There does not, however, seem to be that spirit of coöperation among manufacturers themselves which is necessary to the accomplishment of permanent results. This, to a large degree, no doubt, is due to the feeling of uncertainty existing in the minds of manufacturers as to the extent of the application of the Sherman Act to combinations engaged in foreign commerce. Some lawyers have held that the Sherman Act does not apply in foreign commerce; others have held that it does. While the process of unscrambling combinations is still going on, and so long as there is any doubt about their validity, there will be hesitancy about forming new combinations irrespective of their economic value.

A great deal has been said recently about the necessity of organizing combinations among industries interested in foreign trade if new foreign markets are to be successfully developed. There seems to be quite a general agreement that the Sherman Act should not apply to combinations organized for export trade. That the Administration itself recognizes the necessity for coöperative effort in opening new markets is indicated by the speech of the President of the United States before the Third Annual Meeting of the Chamber of Commerce of the United States, on February 3, 1915, when he said:

I want to know how coöperative methods can be conducted for the benefit of everybody who wants to use them, and I say frankly that if I can be shown that, I am for them. If I cannot be shown that, I am against them. I hasten to add that I hopefully expect that I can be shown that.

Congress will not meet again until next winter, and, therefore, legislation clarifying the situation by amending the Sherman Act so that it shall not apply to combinations in foreign trade cannot be expected for at least a year. In the meantime, opportunity, kept waiting at the closed door, may turn on its heels.

It would seem of vital importance that the best thought and study of those who are interested in the development of our foreign commerce should at this time be directed toward the finding of some temporary expedient, if possible, which will permit manufacturers in certain lines to combine in organizations for the study and development of new markets.

Opening new markets abroad costs money. Wasteful competi-

tion in such markets injures the American manufacturer, serves to discourage effort, and benefits only the foreign consumer and the foreign competitor. In its last analysis, unprofitable foreign trade is a burden upon the industry at home, whereas profitable export business results in a prosperity for the particular industry, in which capital and labor share, and which ultimately benefits the domestic consumer.

There are no restrictions in the Sherman Act against combination for the purpose of studying foreign markets, collecting and disseminating information, investigating efficiency methods in production, or against promoting in general the interests of the American manufacturer. Combinations under the Sherman Act are only illegal if they restrain or tend to stifle competition among the manufacturers of this country, whether the competition be in foreign or domestic business. Combinations for the doing of export business, which would result in the shutting out of other concerns from the foreign field as the result of a monopolistic scheme of organization, would probably be illegal under the Sherman Act as at present construed. And yet export trade, with its many difficulties and problems, requires such a concentration of resources and effort that the great benefits to be derived by the whole country from a large foreign commerce argue powerfully for the removal of all restrictions upon combinations in export trade.

Without wanting to be understood as favoring, under any circumstances, the retention of the provisions of the Sherman Act which so seriously handicap the development of export business, but realizing that while waiting for congressional action the manufacturers of this country are losing precious time in which should be begun preliminary foundation work of greatest importance in the upbuilding of our foreign business, I desire to suggest in brief outline, for your consideration, a concrete plan for the organization of export societies, which, in its essentials, would appear not to violate the prohibitions of the Sherman Act, when interpreted according to the "Rule of Reason."

Let there be organized under the laws of one of the states a corporation to be known, for example, as The American Drug Manufacturers Export Corporation, The American Coal Producers Export Association, or some similar title; the organization to be incorporated with sufficient capital stock to permit all of the members of

the industry throughout the country, or in certain cases those in a particular locality, who so desire, to become members upon exactly the same terms. Each producer desiring membership to subscribe to a definite amount of stock, his subscription being payable in equal instalments over a term of years; sufficient stock to be retained in the treasury to provide for those who might subsequently desire to become members upon equitable terms fair to the original members, each member to own exactly the same amount of stock.

The general scheme and method of operation, which will constitute the contract between the corporation and the members, as well as between the members themselves, will properly be embodied in the articles of association, and will be along the following lines:

1. The corporation is to be impartially organized in a manner fair to all its members, and the management selected with expert ability as the sole test.

2. Membership on the board of directors to be arranged so that in due course of time every member shall receive representation. To avoid possibility of unfair treatment, there will be provided a permanent arbitration committee, to be selected in an impartial manner, and to be made up of persons having no interest in the industry. To this committee shall be referred any questions in dispute, and its services may be invoked by any member.

3. Each member shall, at the beginning of the year, report to the export corporation the amount of its product available for export during the year, the conditions of delivery and of acceptance of orders, and the price at which it is willing to sell in a foreign market. These tenders may be changed from time to time, under such conditions as may be thought advisable, and special quotations of additional quantities may be named whenever desirable.

4. The sales force of the corporation will undertake the disposal of the exportable surplus of its members on the terms and conditions specified, obtaining the best price possible, making use of the export commission houses, the local representatives, the trained salesman and every agency of value in building up foreign trade. The difference between the price quoted and the price obtained shall belong to the export corporation as a profit, and upon all sales all members shall pay to the export corporation the same percentage as a commission.

5. Whenever a demand shall be found to exist in a particular



market for a certain quantity of goods which must be sold at a lower price than quoted by any of the members in order to meet foreign competition, all members shall be notified of the possible order, and given an opportunity to meet the foreign price. Competitive bids will be received, and the lowest bidder is to receive the order; or, if there are a number of low bidders, the order is to be divided.

6. All profits, after deducting all expenses, and setting aside such a sum as shall be deemed necessary for promotion, advertising, establishment of permanent quarters, etc., shall be distributed equally among the members.

7. The export corporation shall provide an expert who shall collect statistical data and information of value to the industry, which shall be distributed promptly, and under the same conditions, and in the same manner, to all members. The export corporation shall also have on its staff an efficiency engineer, who shall make intensive study of methods of production in the industry, cost of production, competitive margins, and the productive capacity of various plants. His services shall be available to any of the members for the purpose of giving advice as to the development of greater efficiency in production, diminishing the cost of production, or increasing the output. He shall also give to all members technical advice as to the best methods of meeting peculiar requirements of foreign markets.

8. The export corporation may also act as a purchasing agency for raw materials. Being able to purchase in large quantities, as a representative of many consumers in a given line, it will be able to buy in foreign markets at the lowest prices. All members will be entitled to the corporation's services in this respect upon the same terms.

It is, of course, not necessary to limit the membership in such an organization to particular lines. Groups of manufacturers in allied lines could profitably unite to form one export company which could conduct a sales campaign for all, as, for example; a drug manufacturers' export corporation might well include manufacturers of toilet articles, cosmetics, perfumes and bathroom accessories. Manufacturers of cottons, woollens and silks might combine in one large textile export association.

In the scheme of organization outlined, competition is unrestricted among all the members of the corporation. Each member

fixes the price at which it will sell its product, and in effect tenders to the export corporation the disposal of a certain product at a certain price. If the price is too high, the product of a particular member remains unsold. When special opportunities are found in a particular market, all members are given a chance to bid for the business. Fair competition without favor is thus guaranteed to each of the members. The member with small resources and a minimum output is not placed at a disadvantage if he cannot meet the prices of the more powerful members of the group, because he will receive his share of the profits of the corporation, which will result, in a large degree, from the commission which each member, whose product is successfully sold, must pay.

The corporation cannot be said to restrain the trade of its members or those who are not members. Its benefits are open to all in the industry on the same basis. Its members are not obliged to sell exclusively to or through the corporation, and are thus free to develop trade for special brands, if they can do so better than through the corporation. The prohibitions of the Sherman Act, in regard to restraint of trade, are meant for the benefit of the American consumer and the American manufacturer, and neither the American consumer nor manufacturer can be injured by the operations of the corporation. Competition in domestic markets is not affected. If the American consumer is affected at all, it will be beneficially, because through the disposition of a large part of the output on the foreign field, American manufacturers will be able to approach nearer to capacity production, thereby bringing down the unit cost of the article manufactured, with a possible reduction in price, in the domestic market.

The greatest advantage to be derived from such an organization is the concentration of the resources of different manufacturers in the building of a thoroughly efficient, highly trained, sales organization, under skilled management, devoting all its energies to the development of foreign markets.

One of the greatest benefits to be gained from a thorough organization of our export activities would be unity of thought and action in dealing with some of the large problems connected with foreign commerce.

Experts representing various industries, working in conjunction, could accomplish much toward simplifying the mechanical

details of export trade. Greater uniformity in bills of lading, shipping documents, consular practices and fees, customs house regulations and port charges might be brought about by united effort. Better service could be exacted from steamship companies and with greater knowledge and closer attention to details the numerous delays, exactions, and fines in foreign customs houses, which are so exasperating to the importer and exporter, could, to a great extent, be avoided. To a body of experts of this character could be intrusted the investigations, if not the preliminary formulation of commercial treaties of the United States, which are of such importance in the development of reciprocal trade relations with foreign countries.

The idea of such an association may appear utopian to some, but practical Germany has demonstrated the value of intensive organization and concentration of effort in foreign commerce.

The above plan is put forth not as a finished scheme of organization which should be adopted without modification, but merely as a suggestion in broad outline, in the hope that by focusing attention upon a concrete proposition some definite results might be accomplished. If the scheme of such a coöperative export corporation or society, which is about the only form of legal combination possible under our existing laws, should prove to be impractical in its application to present conditions, that fact in itself should emphasize the immediate necessity of unshackling American business so as to permit freedom of action in the foreign field. On the other hand, if so reasonable a plan for coöperative action as that outlined be considered, in its fundamentals, as violating the provisions of the Sherman Act, then the absurdity of having such a law upon our statute books would appear to be clearly demonstrated.

Of course, it must be recognized that coöperation through the means of some legal form of combination is not essential or necessary to the development of foreign business in all lines, although in standardized lines where foreign competition is keen our manufacturers must have the right of organization if progress is to be made.

For the marketing of many products, the present export or commission house, with its thoroughly efficient organization, furnishes the best of facilities to the exporter, although even here an organization among various manufacturers, for the purpose of de-

veloping a market and carrying on a general publicity and sales campaign for the benefit of all, will prove valuable. Such a selling organization might arrange with the commission house to attend to all of the necessary details in the actual exportation of the goods.

In certain particular lines, too, where a manufacturer is interested in developing a market for a particular brand or design, there might be little advantage in combination with a competitor, except, perhaps, that there should be a clearly recognized right among such competitors to make binding agreements in regard to the extension of terms in foreign countries.

As indicating the necessity of our manufacturers being permitted to make agreements in the matter of the extension of credits, let me quote from a letter received from a large manufacturer a day or so ago. He says:

Of course, our principal trouble at the present time is with credits. We are limiting our dating to "90 days from date of invoice," and we have heard of some competitors who have given 120 days, but we have called their attention to the fact that if the various American manufacturers are going to sell terms in competition with one another, instead of merchandise, we shall all be losers in the long run, because the buyer in Buenos Aires will simply play one concern against the other to secure the longest dating.

The matter of credits, due to the difficulty in obtaining credit information concerning firms in foreign countries, is a serious obstacle to the growth of export business. The long time credit which has heretofore been customary in South American countries and Russia is violative of sound financial principles. A man should receive such time for the payment of his bills as will permit him to realize upon the sale of goods. When he has received the money from the sale of the goods, a part of it belongs to the merchant who sold him the goods and the rest is his profit. If he is allowed to keep that which does not belong to him for a further length of time, he will be tempted to speculate or at least to divert the money into other sources. Too long credits encourage over-stocking, over-extension and speculation. If, in the cultivation of new markets, American manufacturers, in order to get business, will be obliged to compete with each other in the extension of lengthy credits, and will be denied the right of agreement or coöperation in matters of this kind, the results in the long run are bound to prove disastrous.

Injurious competition between our manufacturers in foreign

markets will inevitably result in making the business for all unprofitable, forcing many out of the market in disgust, to the entire satisfaction of our foreign competitors, who derive profit and enjoyment from our attempts to destroy one another in internecine industrial warfare.

It cannot be denied that in the scheme for an export corporation as outlined, there are opportunities for abuses and the growth of practices which may be injurious to some of the members. By the appointment of a permanent arbitration committee, one of whom might very properly be a member of the Federal Trade Commission, any member who felt himself discriminated against, or unfairly treated, could obtain redress. The Federal Trade Commission, too, has power under the law to correct such abuses upon complaint. The important thing is to find some plan of coöperative effort, which is fundamentally legal and at the same time practical; some plan which can be availed of by our manufacturers without danger of criminal prosecution, until such time as the law shall have been changed.

The smaller manufacturer, of necessity, has become interested in the subject of developing export trade. In many instances he cannot afford the cost of a promotion campaign in a foreign market. The very prohibitions of the Sherman Act which are designed to give him an equal opportunity operate to put him at a disadvantage with the larger manufacturer capable of maintaining an effective sales organization in foreign lands.

By combining the resources of manufacturers in a given line, a highly trained and efficient organization can be developed, operating at a minimum expense, which can scientifically study the markets of the world, disseminate information for the benefit of all and conduct comprehensive sales campaigns along educational lines, which will be sure to bring favorable results.

The possibilities of our commercial future carry a striking appeal even to the ordinary imagination. Whether *the* great opportunity in the nation's history will be taken advantage of in full measure, to the lasting benefit of the whole people, will depend upon the education of our people to the value to this country of export trade; upon the development of a genuine spirit of coöperation among our manufacturers in the intensive study of the possibilities of new markets; upon the patience, skill and tact which are exercised

in the cultivation of the foreign field; upon the building up of a public opinion which will compel the removal of the fetters from legitimate business; and, of most importance, upon the assumption of leadership in this movement by men of broad vision, untiring energy and unselfish devotion.

## THE IMPORTANCE OF AN AMERICAN MERCHANT MARINE

BY BERNARD N. BAKER,  
Baltimore, Md.

I feel highly honored by the request to address your influential body upon the importance of an American merchant marine in the development of our trade with Central and South America. I wish to present this subject from a practical business standpoint and from long experience in the merchant marine.

To begin with, we will take one country, the Argentine Republic, and one class of merchandise, coal, and show you what can actually be done. The annual consumption of coal in the Argentine Republic is about 5,000,000 tons per annum. So far they have been able to find little or no coal there, so they must depend upon other countries for their supply. Now their coal supply is mainly from England. The last quotation of which I have accurate information is of the date of April 17, the average price of coal in Buenos Ayres is about \$9 per ton. For a number of years the price of coal f. o. b. at the various English ports varying from the very best Welsh steam coal to the poorest coal produced on the east coast was \$8 per ton for the best Welsh coal and \$5 a ton for the poorest quality. The rate of freight at the same time to the River Plate is \$7 a ton. Now this would make the coal delivered to Argentine ports of the best quality of coal \$15 a ton, or poor quality \$12 a ton. The very best American coal f. o. b. at the Virginia Capes, or Lambert's Point, the most convenient ports to ship from (and the best American coal is equal to the very best Welsh) can be placed on board vessels at Newport News or Lambert's Point at a cost of \$3 per ton and even less. We have no American ships to carry this coal, but one of the largest ship-building concerns in England would undertake to provide the actual construction of ships to deliver coal to Buenos Ayres, bringing the ships back in ballast, at a cost less than \$3 per ton, making the difference in cost between American and English coal of \$9 per ton, delivered to Buenos Ayres. This is not a theory, these are facts.

Why have not our large coal interests taken advantage of the opportunity to develop such a trade with the United States? First, and most important, is the fact that all the large consumers of coal in the Argentine are almost entirely controlled by English interests and there is in existence today in England a combination known as the Cambria Coal Combine which prevents business being done by agreements with the American coal interests.

But the reply will be made that American steamship companies in their past experience have not been successful. This is true, but anyone who will make a careful study of the cause and condition governing these various American enterprises will find without exception that good and sufficient reasons can be given for their failure.

Until the beginning of 1914 there existed such a powerful combination in the control of the import and export business from the United States and Europe to South America, upon foreign-owned steamers, that it was impossible for any independent service to attempt to secure cargo, particularly coffee, from Brazil to the United States at any rate of freight whatever. Without going into the details of this, I would call attention to the effort made by a New Orleans company as testified to before a committee of Congress as to the impossibility of securing cargo *at any rate*, so powerful was the combination that any shipper that shipped by any independent service could not secure freight room to any ports, not only American, but also foreign for all future time.

With regard to the profitableness of the operation of steamship lines, it is a very remarkable circumstance that while today, and I quote from the report of the Cunard Steamship Company just issued for the calendar year, ending December 31, their business had been so profitable that they had earned sufficient to pay not only a 10 per cent dividend, but a 10 per cent cash bonus dividend and carried over \$700,000 to the credit of profit and loss, while the only large American company (the International Mercantile Marine Company) on April second went into the hands of a receiver. What do we lack? Is it good management or a lack of interest? In 1903 at the time of the formation of the International Mercantile Marine Company a careful calculation was made and the request made of every steamship company or firm owning 20,000 tons of ocean steamers and over for a statement of their accounts. The



result of this was that reports came in from eighty-nine steamship companies representing 2,530 steamships with a tonnage of 7,433,575 tons. This represented every nationality (except American), namely, British, German, French, Japanese, Austrian, Netherlands, Spanish, Italian, Danish, Russian, Norwegian, Grecian and Swedish. The result for a series of years of these companies showed an average net dividend payment of 6.33 per cent per annum. Another fact, the average price today of steamship securities in England is on an interest basis return, regarded more favorably than almost any other possible investment. I will only quote under date of March 25 the last quotations available: Anchor Line  $4\frac{1}{2}$  per cent bonds are bringing 105; the  $4\frac{1}{2}$  per cent Cunard Bonds 102 $\frac{1}{2}$ ; Peninsular and Oriental Navigation Company  $3\frac{1}{2}$  Debentures 85; this, too, in the time of war. I have been informed that in one hundred years there has not been in the history of the English merchant marine one dollar lost on mortgage investments in the prominent British steamship companies. Can any of our railroads or any of our industrial enterprises show such results? Why, therefore, is it not possible to have in our country a merchant marine under our own flag?

First and most important is the first cost of the ship. This varies, according to the character of the ship from 40 to 60 per cent more in the United States than in any other country, particularly England and Germany. Now, Congress has passed legislation (Act of August 18, 1914) allowing any ship, owned or purchased by citizens of the United States under a foreign flag, to be transferred to American registry without duty, if engaged in the foreign trade, so this provides a remedy.

The second and most important question is that of crews, crews' wages and regulations governing same. These are in a most hopeless state, and until the United States can get all the other important maritime nations to coöperate with her in the regulation of payment of the crews' wages, etc., it will be impossible for an American owner under the American flag to compete in the foreign ocean-carrying trade with other countries. It seems to me that this could be done with the coöperation of other countries. How can we accomplish this?

Let us study what has been done to build up our merchant marine.

The first and most important bill that actually passed at a session of Congress was known as the "Mail Contract Act of March 3d, 1891." Every party platform in every national election has advocated in various forms the upbuilding of an American merchant marine. From the time of the passage of this act in 1891, to the present time, there have been numerous bills introduced, but never could the Senate and the House agree on the passage of a bill, and it has nearly always unfortunately been made a party measure, even down to the last legislation proposed, known as the "Ship Purchase Bill."

In 1911 the post office department, under the terms of the Act of March 3, 1891, advertised for the establishment of services with various ports, especially to use the Panama Canal, and in the proposed service was established a special system of barge service both from Colon and Panama to the north coast of South America and also the west coast, as it was thought there would be an enormous distributing station at both these ports. The only conditions in this advertisement were that the control of any corporation taking advantage of a mail contract should not be held by the railways or by any interest doing business with these countries on their own account. Although this advertisement was twice inserted and was equivalent to a guarantee of 10 per cent on the capital required for the American ships under the American flag, in a trade limited to the American flag, not a single bid was received. The reasons for this could easily be explained, but it would take too much time. But this is only quoted to show the efforts that have been made. Over \$30,000 was expended in the way of placing this proposition of the government (in President Taft's administration) before the public, and yet, as stated, not a bid was received. The proposition, just as it was made, was submitted to a large English interest at present engaged in the steamship business, and their comment was that such a proposition offered by England would have had at least 100 bids. So impressed was one of these interests that they agreed, provided it was agreeable to their New York banking correspondents, to take \$500,000 interest in a company to make a bid. It is hardly necessary to state that these bankers declined to approve of this friend taking any interest.

In my thirty years' active, earnest work before nearly every commission and every important investigation by Congress various

discussions have been brought forward as to how to remedy these conditions, and let me say now that never have I met a senator or congressman from any state that did not think it was a question of vital importance that we should have an American merchant marine. I know of no better suggestion than that contained in an article published in the *North American Review* of January, 1910, by me, over five years ago, and that was that, under no circumstances, could an American merchant marine be established without assistance from the government, and the practical way in which to secure this assistance was by the appointment of a commission of practical, experienced business men who had a knowledge of the subject to outline to the government the necessary assistance, with authority to act and agree with other countries upon condition and regulation governing the operation of oversea traffic. This assistance would vary much according to the different ports to which lines might be established and could only be carried out successfully and to the benefit of our country by men having such practical experience, as to different routes of trade, as it would require a different basis of assistance depending upon the class of ships, and the nature of the business to be developed. This would especially apply to our Central and South American commerce. That this suggestion has not been changed in five years, I would call your particular attention to the recommendations of the Chamber of Commerce of the United States and by a special committee of the Chamber of Commerce of New York, which reported, January 28, 1915, at a special meeting called for the purpose of considering suggestions for the establishment of an American merchant marine, that a commission be created.

Can we not trust good men with practical experience and with a spirit of patriotism independent of what may be their own gain, to carry forward successfully the reestablishment of our merchant marine? The appointment of a commission of such men by the President of the United States under the authority of Congress, to reestablish our merchant marine, giving them full authority to do so, would be a wise move. In the recent bill known as the "Ship Purchase Bill," the main and important objection seemed to be that they could not trust any commission with so much power. How else can it be done? Look at the trust and confidence we are putting, and it has been demonstrated, successfully to our best

interest, in our Federal Reserve Board in control of the finances of the country. Why not do the same thing with the merchant marine?

Did it ever occur to you how jealous and how proud other countries are of the development of the merchant marine in this respect? Do you know that you cannot today, as an American citizen, hold a share of stock in the Cunard Steamship Company which is especially under the control of the British government?

I shall not attempt to weary you further, but I would like to call your attention as to how an American merchant marine was valued by the noted writer, Alexis De Tocqueville in his *Democracy in America*, written nearly one hundred years ago.

The Anglo-American has always displayed a very decided taste towards the sea. The Americans themselves now transport to their own shores nine-tenths of the European produce which they consume, and they also bring three-fourths of the exports of the new world to the European consumer. Thus not only does the American merchant face the competition of his own countrymen, but he even meets that of other nations in their own ports with success. As long as the mercantile shipping of the United States preserves this superiority, it will not only retain what it has acquired, but will constantly increase in prosperity. But I am of the opinion that the true cause of that superiority must not be sought for in physical advantages, but that it is wholly attributable to their moral and intellectual qualities.

Have we the same moral and intellectual qualities which were attributed to us by this noted writer nearly one hundred years ago, or have we lost them all?

# THE FUNCTION OF GOVERNMENT IN ITS RELATION TO INDUSTRY

BY JOSEPH E. DAVIES,<sup>1</sup>

Chairman, Federal Trade Commission, Washington, D. C.

The subject "Relations of the United States with Central and South America as Affected by the European War," is fertile in its suggestion and most timely. The relations of this country with our neighbors of the South are brought forcibly to our attention by conditions precipitated by the European war. These relations are therefore interesting by reason of several factors in the situation, to-wit: the manner in which our industrial and financial organizations have been affected; the relations that will arise in a business and industrial way between the republics of this hemisphere by reason of the changing of the currents of the world's trade; and the manner in which these conditions will react upon the policies of the various sister republics of this hemisphere, where such policies are practically founded upon a common purpose and conception of the relation of government to industry.

With differing degrees of severity the European war has affected all the republics of this hemisphere, so far as industry, agriculture and finance are concerned, in much the same manner. We have all suffered by reason of this violent change in world conditions.

The possibilities of mutual advantage through the development of new courses in the world's trade and greater intensity of commercial development in the course of trade already established between this country and the governments to the south of us give great promise.

In the development and growth of the business of these countries it should be a matter of congratulation that, fundamentally, there is identity of outlook on the governmental policy which the respective governments take with reference to the relationship of government to industry.

<sup>1</sup> Remarks as presiding officer at the fourth session of the Nineteenth Annual Meeting of the American Academy held in Philadelphia on April 30 and May 1, 1915.

In the evolution of industry and business the world over there are two types of governmental attitude that are fundamentally characteristic. Under the monarchical form there is a tendency toward centralization of power, not only in government, but as well in industry and finance, with the resultant disposition toward the recognition of monopoly, and indeed, perhaps, the fostering of monopoly, with the participation in the fruits thereof by the favored classes. Among self-governing peoples, on the other hand, there has crystallized a fundamental conception in national policies that there must be equality of opportunity in industry under a government that purports to be a government for the benefit of all the people; that the declaration of equal political opportunity is futile unless there be governmental policies that will preserve equality of opportunity for development consistent with the differences of abilities that reside in men. In other words, the policy of self-governing peoples, generally speaking, has been to develop such a governmental attitude as would preserve the channels of trade open through the processes of regulated competition, and practically all of the republics of the western hemisphere have that common attitude of the relationship of government toward industry.

By reason of this common point of view which pertains fundamentally to the governments of this hemisphere, there is great promise of future sympathetic and continuous coöperative development. This common outlook upon the functions of government has been supplemented as well, within the comparatively recent past, by developments of an international character which have created greater confidence in the integrity of motives of the Pan-American republics. I refer to the so-called Mexican Mediation Conference which was held with reference to the Mexican situation last year.

It is therefore but natural that trade should develop in greater and continuing measure between this country and the South American republics. We have not only a common point of view with reference to the function of government in its relation to industry, but also a greater degree of assurance in the integrity and disinterestedness of each other's motives. Trade, to exist and to grow, must be established not only upon mutual advantage arising through trade, but as well upon mutual confidence in the integrity of purpose and points of view of the people trading with each other.

## CENTRAL AND SOUTH AMERICAN TRADE AS AFFECTED BY THE EUROPEAN WAR

BY JAMES A. FARRELL,

President of the United States Steel Corporation and Chairman of the National  
Foreign Trade Council.

The commercial interdependence of modern nations became strikingly apparent when the first shock of the European war halted neutral commerce as abruptly as that of the belligerents. Although transportation and exchange were dislocated in every country of the globe, probably no other neutral nations were affected to so serious an extent as were the twenty Latin American republics to the south of us. Not only were their business relations with the United Kingdom, France, Germany, Austria and Belgium subjected to an abnormal strain, but their commerce with each other and with the United States was interrupted and is only now beginning to resume encouraging proportions.

The completion of the Panama Canal and propaganda in favor of closer relations with our sister republics are partially responsible for the fact that the American public has developed a tendency to view world trade in terms of Latin America, overlooking the fact that the total trade of the twenty republics with other nations and with each other is but 6 per cent of the total foreign trade of the world, and that the Dominion of Canada normally buys more from us than the whole of Latin America.

### *Educational Power of Varied Trade*

Those who, by reason of their interest in the greater consuming markets, may view this attitude of the American public with disappointment, should realize, however, that the study of the many conditions governing this trade and the tariffs and laws to which it is subject is rapidly acquainting the general public with valuable knowledge concerning foreign trade policy. It is needless to look beyond our Latin American export trade for examples of the strength and weakness of our commercial intercourse with all nations.

In gauging the effect of the European war upon Central and

South American trade and its future development, it should be remembered that European investment has been the chief factor in the growth of these nations. Such financial assistance was essential to the development of their natural resources and the establishment of manufacturing industries.

### *European Investment*

At the beginning of the European war, more than five billion dollars of British capital had been invested in Latin America; while investments of French capital were variously estimated at from four hundred million to one billion two hundred million dollars, and German investments at somewhat less. British investments were estimated to yield an average annual interest of over 5 per cent, or two hundred and fifty million dollars, more than two-thirds of the value of the United Kingdom's yearly imports of Latin American products. In other words, the Latin American natural products imported for the life and industry of the British Isles were largely paid for by earnings of British gold invested in securities of Latin American governments and in the shares of enterprises in those countries, such as railroads, steamship lines, plantations, mines, manufacturing industries, nitrate fields, etc. Moreover, this British investment ensured preference for British exports, as a railroad financed in Great Britain was usually equipped with British materials and British mines were operated with British machinery, etc.

German investment was accompanied by still greater financial influence, as the German industrial system contemplated the importation of raw materials, their fabrication into a much greater volume of products than Germany herself could consume necessitating a wide export market for the surplus. In accordance with the German policy, industry and finance were closely allied, various classes of manufacturers concentrated their resources, supported by the great German banks and upheld by a constructive governmental policy which molded diplomacy, education and national thought to the extension of Germany's influence in world trade, with the result that there was a steady advance in demand for German goods in Latin America.

Each great German financial group was represented in South America by banks which, in addition to conducting a general bank-



ing business for the commercial public, were indefatigable in their efforts to obtain a market for products of the mergers and coöperative foreign selling syndicates which the parent banks in Germany had helped to organize and finance.

### *Limited American Investment*

This influence of financial Europe steadily gained in power in every republic from the Rio Grande to Cape Horn, but its effect was neutralized by American investment in such countries as Mexico and the chain of states extending to Panama and the West Indies. Large American holdings in mines and plantations, fruit trade investments, railroads, tramways, light and power plants and steamship lines, coupled with our greater familiarity with the markets, a fairly considerable American population, and the influence of travel and association, have combined to create an equal opportunity for American goods in the countries north of Panama and in the Caribbean.

Our exports to Central America normally consist more largely of highly finished manufactures than those to any other part of the world. Cuba is the only American country under whose tariff we enjoy a large advantage. To the ten Central American and Caribbean republics and to Venezuela, Colombia and Peru, we sold more merchandise last year than did all the rest of the world, which is sufficient proof of our ability to produce results when supported by helpful association and sound financial investment, in addition to our sound selling methods and high-quality products.

Further south, the influence in behalf of American export trade steadily diminishes, for the reason that our South American investments, except in mines in Peru, copper and iron-ore properties in Chile and packing plants in Argentina, are immaterial; so, also, is American population, while European immigration has been heavy. The importance to a nation of merchants residing in foreign countries cannot be overestimated. British and German merchants scattered throughout the world conducting business as importers of products of their native lands are vital factors in British and German oversea trade, while an American merchant resident in a foreign land is an exception.

*Effect of War*

Even before the outbreak of the war the effect on Latin American markets of curtailed European investment, beginning with the second Balkan war, was marked. Dependent as new enterprises were upon the selling of securities on the British and Continental bourses, prosperity in South America had long been dependent on the European money market, and all industry and most government finance showed distress a full year before the great European war began.

When hostilities were declared, the situation became the worst in their history, and moratoria were promptly declared in practically every country. Pending loan negotiations were halted, new construction was suspended, sterling exchange, the almost universal currency of Latin American trade, soared to unprecedented heights, steamship communication was interrupted, and confidence was completely impaired. The demoralizing effect of the crisis upon the domestic, as well as the foreign business of the United States, is not yet forgotten; in Latin America it was even more severe. Trade between the United States and South America came almost to a halt and, even after British control of the sea restored transportation, the credit situation and the difficulties of collections prevented the resumption of normal business.

*Purchasing Power Curtailed*

Those whose enthusiasm led them to believe that, with Germany out of the race for trade, the United States could immediately gain the export trade formerly enjoyed by that country, failed to consider the fact that Latin American purchasing power had shrunk by reason of the curtailment of British investment and the loss of the German, Austrian and other customary European markets for their products. More thoughtful exporters realized that the mechanism of commerce must be restored before present business could be taken care of, leaving aside the question of a greater future trade. The disadvantage of the former custom of liquidating transactions in our trade with Latin America at London in sterling bills of exchange was made apparent, and its excessive expense bred in exporters and importers the desire for the establishment of dollar exchange and direct settlements between this country and southern

markets. In the furtherance of this desire, the federal reserve banking law is timely. Its authorization of the federal reserve banks to deal in acceptances representing transactions in the export and import trade created in each of the great export centers a discount market for this paper, with the result that bills drawn on oversea customers find ready sale when accepted by banks belonging to the federal reserve system, and the extension of credits has been greatly facilitated.

Immediately the war assumed its present gigantic proportions, it was plain that the purchasing power of Latin America had dwindled to the value of its exportable products, and much depended, therefore, upon the state of crops, such as wheat in Argentina, coffee in Brazil, and elsewhere.

#### *Situation Improving*

Fortunately, these crops were large and foodstuffs commanded unusually high prices in the European market, with the result that, within the last three months, trade has quickened, confidence has been partially restored, and business is beginning to be conducted "as usual," except that all new construction is at a standstill and no extensive development is contemplated until the end of the war.

A notable effect of the war in our commercial relations with Latin America has been the increasing reexportation of characteristic Central and South American products. New York and other ports of the United States are now important distributing points for international commerce, as shown by the fact that exports of foreign merchandise for the eight months ending February, 1915, were valued at \$33,166,512, as against \$20,541,138 for the same period in the previous year. This gain was especially notable in the case of cacao, the reexports of which increased more than fivefold, reaching, for the eight months ending with February, a total value of \$2,835,591. The reexports of coffee leaped from \$968,530 to \$4,482,368. This was largely due to the closure of Hamburg and conditions prevailing in other European ports, formerly the center of the world-distributing trade. In comparison with these old-world centers, New York became the greatest open port. By reason of restrictions placed upon the export of rubber by the United Kingdom, to prevent its being used by the enemy, the importance of American ports for

the distribution of India rubber greatly increased, the value of reexports growing about 80 per cent.

*Trade Balance Adverse to United States*

During the eight months ending February 28, 1915, our exports to all Latin America and the West Indies were valued at \$159,742,-863, as compared with \$212,227,558 for the corresponding period ending February 28, 1914, a decrease of 25 per cent, while our world exports during the same period decreased 3½ per cent. Our imports from the same countries, during the same period of the present fiscal year, amounted to \$316,374,763 against \$289,318,891, an increase of 9 per cent, although our world imports decreased 13 per cent. This comparison shows a trade balance of \$156,631,900 in favor of Latin America and the West Indies, which will adequately answer the demand of those who are urging us to buy more freely from Latin America, but even in normal times, the balance is in our neighbors' favor. Under the provisions of the federal reserve law, we can reasonably look for largely increased sales of American products.

The reasons for this decrease in our exports were the practical suspension of commerce during the first few weeks of war and the acute depression which followed. This decrease was noticeable in shipments of all construction materials, such as iron and steel manufactures, lumber and cement, agricultural machinery and equipment, automobiles, railway cars, locomotives, sewing-machines and other highly finished manufactures, while exports of actual necessities occasionally increased, by reason of the lack of European competition. For instance, exports of coal, which, before the war, except to Central America, were not heavy, trebled to Argentina, and greatly increased to Brazil, while shipments of American paper, because of the need of replenishing stocks and the elimination of German competition, also grew in volume, while inquiries began to pour in for numerous small lines, thus increasing the diversification of our export trade. At the close of the war, however, we will find it necessary to exert every effort to maintain this newly-won trade against the determined competition of Europe.

The increase in value of imports from Latin America is largely due to higher prices of various products, combined with the fact that trade routes have been changed and New York has become more

active as a distributing point, as shown in the case of cacao, some importers of the Ecuadorian, Brazilian and Dominican product expecting to see it become the greatest distributing point in the world. The use of cocoa and chocolate in the ration of the modern army proved the salvation of Latin American cacao growers.

The demand of the European belligerents for foodstuffs and supplies has saved the situation both in Latin America and the United States. The development of Latin America cannot proceed, however, without foreign capital. Citizens of the United Kingdom are forbidden, during the war, to invest in foreign enterprises, which eliminates England, France, Germany or Belgium, leaving the United States as the only great nation whose trade balance is increasing and whose gold is accumulating.

#### *Source of Future Investment*

That American capital is educated to foreign investment is proven by the fact that its holdings in the Dominion of Canada are nearly seven hundred million dollars, exclusive of agriculture, and half a billion dollars in Mexico, Central America, Cuba, Haiti, Santo Domingo, Chile and Peru. Since the beginning of the war, fifteen million dollars of short term Argentine treasury notes have been taken in the United States, one of the conditions of the issue being that the proceeds should remain in the United States as a credit against the Argentine purchases of American merchandise. This unusual condition illustrates the advantage of making loans to countries which can become large purchasers of our products.

British investors are retaining their Latin American properties, which will prove more valuable than ever after the war, in view of their freedom from the heavy taxes which war imposes upon investments in the United Kingdom. How important a part British capital will play in the financing of Latin America after the war remains to be seen, but the consensus of financial opinion seems to be that interest rates will materially increase, and the amount of this increase, as compared with the price of United States loans, will doubtless determine the question of who is to be the chief investor.

*Relation of Investment to Export Trade*

Of greater importance than the interest rate is the creation of a greater export market for American manufactures through railway and industrial loans. By reason of European investment, the area into which we can expect to send American exports is restricted. For instance, in view of the fact that railways promoted by European capital are confining their purchases of materials to Europe, our only field for railway supplies and equipment has been the government railways. When the output of American factories is increased by foreign investment, the investment becomes in reality a domestic investment and its encouragement by the United States government should naturally be expected. Upon this attitude will depend largely the future of American business enterprise abroad. With governmental support and intelligent coöperation between investors much can be accomplished, although some hesitancy on the part of capital may be encountered, owing to the deterrent effect of the Mexican revolution. However, the awakened interest of the entire American business public in the possibilities of Latin American trade is a great assurance of future increase.

While the establishment of dollar exchange will not, perhaps, entirely replace confidence in sterling bills at the conclusion of war, a beginning has been made for American banking.

*Excessive versus Adequate Credits*

Although much is said in favor of conducting business in accordance with the desires and standards of our Latin American customers we should remember that this applies only to what is recognized by the world to be sound business practice. Arguments in favor of granting six, nine and twelve months' credit do not recognize the fact that extension of unusual credits was an important factor in the industrial depression preceding the war, Germany's eagerness for British trade having led many German firms to extend credits which deferred merchants' obligations several months beyond the time when they realized on the purchased goods. With this ready money at hand, the merchant frequently speculated in land, with the result that collapse of the land boom caused heavy losses and failure to pay at maturity of even these long credits.

British exporters frequently voluntarily suffered the loss of old and valued business in preference to extending excessive credits, and Americans with experience in Latin American trade are of the opinion that the limit of credit should be sufficient only to cover the time required by purchaser to realize on the goods bought, taking into consideration the harvesting and marketing of crops.

## TRADE RELATIONS WITH CENTRAL AND SOUTH AMERICA AS AFFECTED BY THE WAR

BY JOHN HAYS HAMMOND,

New York City.

One of the lessons we learn from the present European war as regards our trade relations with Central and South America, is the dependence of those countries upon Europe and America, and especially upon Europe, for financial assistance, not only for governmental purposes but for the development of their national industries; and, as a corollary, the restriction of the purchasing power of Central and South America when deprived of such financial assistance. South America, particularly, has depended upon European money for the development of its natural resources, from the exploitation of which it has been able to make earnings so as to further increase its borrowing power.

The European war has, however, made it temporarily impossible for the South American countries to obtain financial assistance from that source and for that reason they have suffered in an exceptional degree from financial, industrial and commercial depression. This condition has been aggravated, too, by the loss, in a large measure, of European markets for their products; but, even before the beginning of the great European war, many of the most important South American states were in desperate straits financially owing to the difficulty in meeting their European obligations. It will, in all probability, be many years before Europe will again become the banker and broker of those countries in any adequate measure, at least.

Therefore, it is obvious that if the United States is to realize its ambition to secure a large increase in its Latin American commerce, our capitalists must be prepared to render these countries the required financial assistance. Our country will need a large part of its capital during the next decade for its own industrial development, as in all probability cheap money from European financial centers will not be readily available.



The rehabilitation of the industries of Mexico, when peace shall have been restored in that country, will also require large loans and investments from this country for the protection of the large investments already made there by Americans.

In order to induce our capitalists to supply working capital to Latin American countries they must be assured of the encouragement and coöperation of our national administration and of the guarantee of the protection of their investments against discriminatory laws and confiscation, especially in time of revolutionary movements. Our citizens must be assured at least of the same degree of protection that is guaranteed by other governments to their nationals. This does not by any means imply a truculent attitude on the part of our government toward weaker nations—indeed, nothing would be more prejudicial in the long run to the interests of our citizens than such an attitude on the part of our government. But cheap money is invaluable in the development of new industries, and cheap money can be obtained only by a guarantee of the protection of invested capital against political exigencies.

To obtain the confidence of investors in Pan-American investments, I believe a Pan-American supreme court should be created to deal specifically with disputes as to foreign investments and as to commercial transactions between Pan-American citizens. Such a court should be composed of the leading jurists of our own and of Latin American nations and should sit in neutral territory. If inspired by self-interest only, it would obviously be the aim of such a tribunal to establish confidence in Latin American investments generally and at the same time to reassure our Latin American customers of fair treatment in their business transactions with the exporters of the United States. This is quite as important as the establishment of confidence of our capital in Latin American investments.

Such a court might well be one of final resort. In any event, it should try cases and endeavor to adjudicate them before appeal through diplomatic channels, which almost invariably results in friction and often, indeed, in extreme tension.

Genuine, not merely professed amity, is a great asset in commercial relations, and since the larger South American nations regard the Monroe Doctrine as supererogation on our part, it would seem

good business, to say the least, to restrict the application of the Doctrine to such territory as is necessary for the defense of the Panama Canal and of our sphere of influence in the Caribbean Sea area. As to the rest of South America, the Monroe Doctrine might well be superseded by a Pan-American defensive alliance against attempts at territorial aggrandizement from abroad.

# TRADE CONDITIONS IN LATIN AMERICA AS AFFECTED BY THE EUROPEAN WAR

BY EDWARD EWING PRATT,

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Much has been said in the public prints and in public utterances as to the opportunities for the extension of our trade with Latin America. An almost equal amount has been printed and otherwise circulated with reference to Latin American commercial conditions as affected by the war in Europe. Special emphasis has been laid on the disastrous effects of the war and it is often stated that the financial and commercial conditions in Latin America are so bad that American manufacturers and exporters are not warranted in soliciting trade there at the present time.

What the business world desires in this matter is not opinions but facts—definite concrete facts—as to the actual present-day commercial conditions in Latin America. It is then the privilege of each business man to formulate his own opinions and depend on his own judgment as to whether he desires to take up the active development of Latin American trade today, tomorrow, or at any time in the future.

Let us consider then in the brief time at our disposal, three sets of facts: (1) the general economic situation of the Latin American countries; (2) the immediate effects of the European war upon the Latin American countries; and (3) the recovery, if any, which has been effected up to date. The facts which I shall present are based largely on first-hand information which has been received by the bureau of foreign and domestic commerce from our own commercial attachés and commercial agents who are stationed in Latin America, and from the American consuls and the department of state.

I. The great sensitiveness of Latin American countries to disturbances in Europe and the close interrelation which has existed between the two sections were graphically illustrated two years ago, when the trouble in the Balkans, involving directly only a few small nations in the east of Europe, was sufficient to cause a decided de-

pression over practically all of Central and South America. In some countries it checked a tide of prosperity that had been running high for several years, and in others helped to bring about a liquidation that continued until the outbreak of the present war. It can be realized, therefore, how tremendously the great war, involving all the major powers of Europe, has affected the economic and commercial life of the various South and Central American countries. Although they are separated from the scene of hostilities by 7,000 miles of ocean they were much more severely affected than the nations contiguous to the warring nations. The commerce of Latin America was cut in half, immigration ceased, industry was temporarily paralyzed, thousands of men were thrown out of employment, and all public improvements, except those absolutely indispensable, were suspended.

The reason for the strong and sudden check to every line of activity is to be found in the closeness of the ties that have heretofore bound all the countries of South America, and to a less extent those of Central America, to the great European nations—England, Germany, France, Spain, Belgium, and Italy. It is only recently that the United States has awakened to the strength of those ties, and has come to realize that the growing countries to the south of us are much more closely related to Europe, except perhaps in form of government, than they are to the United States.

The ties between Europe and Latin America are of two kinds, financial and commercial. In both they have been strengthened because of the basic fact that the interests of Europe and South America have been reciprocal. Europe has capital to invest, South America needs capital for development. Europe has manufactures and coal to sell and South America must obtain them from abroad. Europe desires to purchase foodstuffs and raw materials, and South America has an abundance of both to dispose of. It is this fundamental reciprocity of commercial interests that has caused the South American countries to feel so heavily the shock of the war.

In at least three of the largest countries loans involving millions of dollars were in process of negotiation at the outbreak of the war. Negotiations closed at once and no loans were obtained. The impossibility of getting further loans has called a halt on nearly all important projected public improvements and private enterprises. Further development of the rich resources of the continent

must await the accumulation of European capital after the war or the aid of the United States.

The nitrate, coffee, cocoa, hides, tin and rubber of South America have been largely marketed in Europe. On the first of August the European market practically ceased to exist. The vast producing sections of South America were without an outlet for their products. Their chief sources of income were unsalable or salable only at greatly reduced prices. The only hope was in the United States, which at first could absorb but limited quantities of products the consumption of which had heretofore been world-wide.

But all sections of South America do not suffer to the same degree from the lack of a market for their products. Some products are in great demand. Let us hurriedly run over the principal exports of the various countries of the continent: Argentina exports cereals, hides, meat and wool; Uruguay, grain, wool and other live-stock products; Paraguay, hides and forest products; Chile, nitrates, copper, wheat and wool; Bolivia, tin, rubber, silver and copper; Peru, sugar, rubber, cotton, silver and copper; Ecuador, cocoa and tagua; Colombia and Venezuela, coffee, gold and hides; the Guianas, sugar; Brazil, coffee, rubber, hides and cocoa. Of these, cereals, meat, wool, sugar and copper are in great demand across the sea. The other products are in little demand and have been left in the hands of the miners and planters. The result is that in a few sections the currents of trade are again running strong and optimism prevails, while in others trade, finance, and enterprise are still marking time, with small prospects of marked revival until the war ends.

II. The continent of South America may be conveniently divided into four general sections, in each of which similar conditions prevail. These are: (1) the River Plate section, including Argentina, Uruguay and Paraguay; (2) the West-Coast section, Chile, Bolivia, Peru and Ecuador; (3) the North-Coast section, Colombia, Venezuela and the Guianas; and (4) Brazil.

As compared with South America the countries of Central America are of much less importance. They need hardly be considered separately because in products, internal conditions, shipping facilities, climate, and general character they are very similar to the north-coast countries of South America.

In normal times the River Plate section is the region of the greatest commercial activity. For example, in 1912, the total import

## SOUTH AND CENTRAL AMERICAN COMMERCE WITH EUROPE AND THE UNITED STATES

| Items                   | United States,<br>per cent of total | Principal<br>countries<br>Europe,<br>per cent of total |
|-------------------------|-------------------------------------|--|
| <b>Argentina, 1913:</b> |                                     |  |
| Imports.....            | 14.7                                | 72.  |
| Exports.....            | 4.7                                 | 56.4   |
| Corn (a).....           | .4                                  | 27.5   |
| Wheat (a).....          | .4                                  | 46.8   |
| Wool (a).....           | 10.2                                | 88.8   |
| Oats (a).....           | .1                                  | 78.7   |
| Meats (b).....          | ....                                | ....   |
| <b>Brazil, 1913:</b>    |                                     |  |
| Imports.....            | 15.7                                | 62.2   |
| Exports.....            | 32.5                                | 48.4   |
| Coffee (a).....         | 42.1                                | 39.6   |
| Rubber (a).....         | 50.4                                | 49.6   |
| Ox hides (a).....       | 3.6                                 | 89.6   |
| <b>Venezuela, 1913:</b> |                                     |  |
| Imports (c).....        | 38.5                                | 46.8   |
| Exports (c).....        | 28.7                                | 57.5   |
| Coffee.....             | 31.2                                | 68.  |
| Cacao.....              | 14.3                                | 44.3   |
| <b>Peru, 1913:</b>      |                                     |  |
| Imports (c).....        | 28.8                                | 63.1   |
| Exports (c).....        | 33.2                                | 63.1   |
| Copper (d).....         | ....                                | ....   |
| Cotton (d).....         | ....                                | ....   |
| Sugar (d).....          | ....                                | ....   |
| <b>Chile, 1913:</b>     |                                     |  |
| Imports (c).....        | 16.7                                | 67.5   |
| Exports (c).....        | 21.0                                | 70.4   |
| Nitrate.....            | 21.4                                | 71.8   |
| Copper.....             | 55.6                                | 43.2   |
| Wool.....               | .04                                 | 99.1   |
| <b>Bolivia, 1912:</b>   |                                     |  |
| Imports.....            | 9.3                                 | 64.5   |
| Exports.....            | .5                                  | 98.  |
| Tin.....                | 0.02                                | 99.8   |
| Rubber.....             | 2.3                                 | 97.4   |
| <b>Ecuador, 1911:</b>   |                                     |  |
| Imports.....            | 23.6                                | 59.88  |
| Exports (e).....        | 23.6                                | 64.40  |

SOUTH AND CENTRAL AMERICAN COMMERCE WITH EUROPE AND THE UNITED STATES—*Continued*

| Items  | United States,<br>per cent of total | Principal<br>countries<br>Europe,<br>per cent of total |
|--|-------------------------------------|--|
| <b>Ecuador, 1911:</b>                              |                                     |  |
| Cacao.....   | 19.2                                | 72.80  |
| Hats.....  | 18.9                                | 72.18  |
| Coffee.....  | 31.9                                | 22.40  |
| <b>Uruguay:</b>                                    |                                     |  |
| Imports, 1910.....                                 | 10.6                                | 70.24  |
| Exports, 1912.....                                 | 5.4                                 | 65.91  |
| Wool, 1910.....                                    | 3.3                                 | 84.34  |
| Hides and skins, 1910.....                         | 17.3                                | 74.98  |
| Meat and meat extracts, 1910.....                  | .2                                  | 34.78  |
| <b>Paraguay, 1912:</b>                             |                                     |  |
| Imports.....                                       | 6.                                  | 68.12  |
| Exports (f).....                                   | .01                                 | 60.64  |
| <b>Colombia, 1913:</b>                             |                                     |  |
| Imports (c).....                                   | 28.3                                | 57.38  |
| Exports (c f).....                                 | 55.                                 | 27.92  |
| <b>British Guiana, 1912 (year ended March 31):</b> |                                     |  |
| Imports.....                                       | 25.9                                | 49.58  |
| Exports.....                                       | 20.3                                | 25.59  |
| Raw sugar.....                                     | 23.7                                | 13.58  |
| Balata gum.....                                    | 19.3                                | 80.70  |
| Rum.....   | ....                                | 89.54  |
| <b>Dutch Guiana, 1911:</b>                         |                                     |  |
| Imports.....                                       | 26.1                                | 1.90   |
| Exports.....                                       | 40.8                                | 5.77   |
| Balata gum.....                                    | 19.6                                | .65  |
| Sugar.....   | 52.2                                | 1.49   |
| Cacao.....   | 93.3                                | 2.52   |

(a) Figures for 1912.

(b) Figures for 1914 meat shipments show United States took following per cent of exports: frozen beef, 11.2 per cent; chilled beef, 17.9 per cent; mutton, 7.2 per cent; lamb, 15 per cent. Practically all the rest went to Europe.

(c) Figures include gold and silver.

(d) In 1909, the latest year of record, the United States took 81 per cent of Peru's exports of copper, 10 per cent of cotton, and 8 per cent of sugar.

(e) Includes so-called "optional orders."

(f) Figures of exports by articles and countries not available for a recent year.

trade for the continent of South America was \$965,123,000, and the import trade of the River Plate countries was \$427,533,000. Out of a total South American export trade of \$1,178,829,000, these countries had \$518,070,000. Out of a grand total trade of \$2,143,952,000 for all of South America, the River Plate was credited with \$945,603,000, or almost half. In spite of their strong commercial positions these countries were, at the end of July, in no position to withstand the shock of a catastrophe such as the war in Europe. When the war began Argentina was undergoing a heavy liquidation and the business of both the other countries was affected by it. This liquidation had been made necessary because of the overcapitalization of the country and the eagerness of speculators to realize big profits from its rapid development. Although only about a fifth of the arable land of the country is as yet under cultivation, the expansion over new territory in the last decade or two has been rapid. Trade and commerce have experienced a corresponding expansion. This has resulted in the building up of large fortunes and has stimulated speculation in land to such an extent that values rose beyond the point which even the rapid progress of the country could sustain. Liquidation was thus inevitable and it became pronounced about the beginning of 1913. All through that year the depression prevailed and was at lowest ebb about the close of last July, when the coming of the war deepened it still further. The process of liquidation and the effect of the war conditions are graphically shown by the figures for commercial failures in the various months of 1913 and 1914:

## COMMERCIAL FAILURES IN ARGENTINA

|                 | 1913        | 1914        |
|-----------------|-------------|-------------|
| January .....   | \$1,884,902 | \$7,154,979 |
| February .....  | 2,553,966   | 13,105,001  |
| March .....     | 3,789,540   | 12,382,677  |
| April .....     | 7,894,399   | 10,468,472  |
| May .....       | 4,244,050   | 15,257,975  |
| June .....      | 10,144,167  | 10,613,880  |
| July .....      | 7,597,110   | 12,409,360  |
| August .....    | 6,823,957   | 36,774,289* |
| September ..... | 4,006,942   | 17,195,420  |
| October .....   | 6,505,357   | 21,254,864  |
| November .....  | 10,141,258  | 12,808,200  |
| December .....  | 7,749,897   | 13,209,505  |

\* It should be explained that the high mark for August, 1914, was due in part to the failure of the French Bank of the River Plate, which has since opened its doors without loss to depositors or stockholders.



The news of the European conflagration practically put a stop to all business activity and for weeks trade and commerce were practically paralyzed. Foreign trade, on which not only the prosperity and advancement but almost the whole business life of Argentina depend, dropped to nearly nothing. Shipping that had been en route at the time war broke out came in and remained idle in the ports. Industry of all kinds was suspended. The large meat-freezing establishments stopped work and discharged practically all their employees. Public improvements were discontinued. The efforts of Argentina to raise a loan of \$77,000,000 for the purpose of reorganizing the sanitation system of Buenos Aires were frustrated. It was later necessary to float a loan of \$15,000,000 in the United States to pay back advances which had been made in connection with this work. Exchange operations came to a standstill and no regular quotations were made for months. There was of course no trading in stocks and even the government securities, unquestionably sound, fell many points.

Emergency measures taken by the authorities included the declaration of a bank holiday on August 2, which lasted eight days, and the declaration of a moratorium covering all of August. The Conversion Office was closed and gold was no longer given in exchange for paper. This office is still closed and may remain so until the end of the war. The exportation of gold from the country was forbidden by law, and an embargo was laid on the exportation of flour and wheat, which was not removed until December. Measures were taken to relieve unemployment by starting work on the highways wherever possible, opening the large Immigrants' Hotel, and establishing soup kitchens. A large issue of paper money was authorized, and legations and embassies of Argentina in foreign countries were directed to receive deposits of gold, against which equal amounts of paper money might be obtained from the Conversion Office in Buenos Aires. In this way the difficulty of shipping gold or of paying high exchange was obviated. In October an international moratorium was declared, releasing debtors during its continuance from the obligation of paying debts arising from commercial transactions with countries at war or under moratoria. This provision is still in effect and will probably remain in effect until the close of the war.

The commercial effect of the outbreak of the war is strikingly shown by the decrease in the principal exports:

## DECREASE IN PRINCIPAL EXPORTS OF ARGENTINA

| Exports for week ending | Wheat<br>Metric Tons     |        | Corn<br>Metric Tons  |        | Linseed<br>Metric Tons |        |
|-------------------------|--------------------------|--------|----------------------|--------|------------------------|--------|
|                         | 1913                     | 1914   | 1913                 | 1914   | 1913                   | 1914   |
| August 21.....          | 14,490                   | 8,385  | 119,045              | 23,711 | 18,641                 | 1,819  |
| August 28.....          | 13,318                   | ....   | 156,422              | 27,455 | 12,728                 | 2,046  |
| September 24.....       | 4,242                    | 1,734  | 113,205              | 83,238 | 12,212                 | 6,254  |
|                         | Oats<br>Metric Tons      |        | Wool<br>Bales        |        |                        |        |
|                         | 1913                     | 1914   | 1913                 | 1914   |                        |        |
| August 21.....          | 989                      | 600    | 127                  | ....   |                        |        |
| August 28.....          | 575                      | 630    | 778                  | 77     |                        |        |
| September 24.....       | 5,473                    | 326    | 1,413                | 200    |                        |        |
|                         | Meat, Frozen and Chilled |        |                      |        |                        |        |
|                         | Chilled beef quarters    |        | Frozen beef quarters |        | Mutton carcasses       |        |
|                         | 1913                     | 1914   | 1913                 | 1914   | 1913                   | 1914   |
| August 28.....          | 53,674                   | 6,822  | 13,681               | 5,168  | 14,860                 | 1,051  |
| September 24.....       | 50,204                   | 49,745 | 9,917                | 54,911 | 453                    | 25,699 |
|                         | Lamb carcasses           |        |                      |        |                        |        |
|                         | 1913                     | 1914   |                      |        |                        |        |
| August 28.....          | 10,744                   | 1,000  |                      |        |                        |        |
| September 24.....       | 1,400                    | 16,095 |                      |        |                        |        |

An even more graphic illustration of the effect of the war on the trade of the country is that of the figures showing customs receipts at Buenos Aires for the first weeks of the war as compared with the corresponding weeks in 1913:

## DECREASE OF CUSTOMS RECEIPTS AT BUENOS AIRES

| Week ended             | 1913        |          | 1914        |          |
|------------------------|-------------|----------|-------------|----------|
|                        | Paper       | Gold     | Paper       | Gold     |
| August 7 . . . . .     | \$3,668,177 | \$48,286 | \$1,130,501 | \$16,749 |
| August 14 . . . . .    | 3,933,219   | 81,324   | ....        | ....     |
| August 21 . . . . .    | 3,196,412   | 27,701   | 3,851,598   | 2,069    |
| August 28 . . . . .    | 3,937,137   | 44,143   | 2,553,312   | ....     |
| September 4 . . . . .  | 3,144,098   | 31,400   | 1,765,495   | ....     |
| September 11 . . . . . | 3,047,197   | 43,074   | 1,911,563   | ....     |

It should be noted that the customs receipts collected at the Buenos Aires custom house comprise a very large part of those collected in the whole country, and show the dropping off in imports. The receipts did not increase during the rest of the year.

It will be unnecessary to consider the immediate effects of the war on Uruguay. They were in general similar to those of Argentina, as the situation and products of the two countries are so similar.

In Brazil the first effects of the war were even more serious. Here, as in the River Plate section, the blow fell just when the country was in the midst of a severe depression which had lasted since the beginning of 1913. It had been brought about by general extravagance, both national and individual, which followed several years of almost feverish prosperity; by the Balkan wars and the consequent difficulty in getting credit and loans in Europe; by uneconomical management of public finances; and by the decline in the prices of rubber and coffee, the two great staples of the country. This depression unlike that in Argentina had been attended by very few commercial failures, owing largely to the praiseworthy co-operation between the banks and the mercantile houses. It had shown itself rather in the almost total lack of fresh enterprise and industrial activity, in the increasing financial difficulties of the government and the continued necessity for raising new loans. The government was just about to conclude arrangements with the Rothschilds for flotation of a large new loan which would have involved the entire reorganization of governmental finances when the outbreak of the war summarily ended the negotiations. It is under-

stood that this arrangement included a plan by which the Rothschilds were practically to assume control of the paper currency of the country. The situation, already serious, was rendered almost dangerous by this turn of events, and Brazil has not yet been able to find a way out.

The immediate results of the war were as in Argentina the paralysis of industry and shipping, and the suspension of foreign trade. The shutting off of imports was beneficial, as it helped to regulate exchange and enforced economy. The drop in the export trade, however, especially in coffee, was little less than disastrous. Upon the sale of this crop depends not only the individual prosperity of the planters but also the maintenance by the government of the exchange rate on its paper. This exchange rate is subject to extensive fluctuations, due to the fact that, except for a small part of the paper currency, it is not maintained by a permanent conversion fund and depends largely on the continued building up of credits abroad through sales of coffee. Shortly after the beginning of hostilities the rate of exchange began to decline, and from a normal rate of sixteen pence or thirty-two cents per milreis it fell to eleven pence. Dire predictions were made that it would go as low as six or eight pence, but instead there was a recovery and it reached fourteen and one fourth pence. This recovery was only temporary, however, and it again declined. On February 23 the exchange rate was twelve and one half pence per milreis. The decline of exchange was materially assisted by the authorization of an issue of \$80,000,000 of new paper money, although the country was already carrying a heavy load of inconvertible paper. Observers at present regard the issue of still further amounts of paper money as inevitable, and if this comes to pass the exchange rate will receive another downward thrust.

Commercially, Brazil benefited greatly in the months following the outbreak of the war through its heavy trade with the United States. This alone prevented the entire loss of one-half or three-fourths of the foreign trade. There was a considerable falling off in the exports of everything except sugar.

The exports of Brazil for the five months of the year following the beginning of the war were only \$76,000,000 as compared with \$164,000,000 for the corresponding period of the previous year, although the export trade up to August had been about normal.

Imports for this period showed an even heavier decline, amounting to only \$42,000,000 as compared with \$127,000,000 for August-December 1913 and \$137,000,000 for the corresponding period of 1912. It should be noted, however, that the imports had fallen off in the first part of the year, amounting to \$130,000,000 from January to July as compared with \$200,000,000 for the first seven months of 1913.

PRINCIPAL EXPORTS FROM BRAZIL

| Articles                         | 1913                     |              |                      | 1914        |             |                      |
|----------------------------------|--------------------------|--------------|----------------------|-------------|-------------|----------------------|
|                                  | August                   | September    | August and September | August      | September   | August and September |
| Coffee.....                      | { sacks ... 1,132,120    | 1,590,258    | 2,722,378            | 396,333     | 832,766     | 1,229,099            |
|                                  | { value ... \$17,943,303 | \$21,680,394 | \$39,623,697         | \$4,389,634 | \$9,958,443 | \$14,348,077         |
| Rubber.....                      | { pounds ... 4,791,952   | 4,899,600    | 9,691,552            | 3,333,095   | 5,716,856   | 9,049,951            |
|                                  | { value ... \$2,712,451  | \$2,762,462  | \$5,474,913          | \$1,627,384 | \$2,720,910 | \$4,348,294          |
| Yerba maté (Paraguayan tea)..... | { pounds ... 13,034,377  | 15,801,331   | 28,835,708           | 12,874,611  | 11,366,168  | 24,240,779           |
|                                  | { value ... \$1,090,663  | \$1,316,391  | \$2,407,054          | \$783,824   | \$766,839   | \$1,550,663          |
| Hides.....                       | { pounds ... 5,747,386   | 3,990,730    | 9,738,116            | 1,361,602   | 3,817,317   | 5,178,919            |
|                                  | { value ... \$806,221    | \$790,272    | \$1,596,493          | \$175,068   | \$424,472   | \$599,540            |
| Cacao.....                       | { pounds ... 6,276,734   | 6,756,235    | 13,032,969           | 2,168,165   | 3,914,737   | 6,082,902            |
|                                  | { value ... \$731,974    | \$791,706    | \$1,523,680          | \$225,873   | \$404,805   | \$630,678            |
| Cotton.....                      | { pounds ... 3,318,757   | 5,862,322    | 9,181,079            | 439,806     | 676,014     | 1,115,820            |
|                                  | { value ... \$438,380    | \$744,158    | \$1,183,038          | \$55,659    | \$90,257    | \$145,916            |
| Tobacco.....                     | { pounds ... 3,497,527   | 4,678,557    | 8,176,084            | 219,666     | 1,339,730   | 1,559,396            |
|                                  | { value ... \$429,047    | \$505,455    | \$934,502            | \$29,771    | \$173,021   | \$202,792            |
| Skins.....                       | { pounds ... 448,160     | 977,753      | 1,425,913            | 358,730     | 768,362     | 1,127,092            |
|                                  | { value ... \$230,397    | \$523,316    | \$753,713            | \$179,598   | \$316,390   | \$495,988            |
| Sugar.....                       | { pounds ... 103,492     | 84,887       | 188,379              | 11,422      | 5,072,034   | 5,083,456            |
|                                  | { value ... \$2,786      | \$3,391      | \$6,177              | \$757       | \$156,977   | \$157,734            |

The almost desperate situation in which Brazil was placed by the sudden closing of foreign sources of loans, the withdrawal of invested capital, the obvious impossibility of getting fresh supplies of capital, the wiping out of a large part of the market for its chief commodities, and the derangement of shipping facilities, called forth as in other countries a number of emergency measures which have made possible the temporary weathering of the storm. A bank holiday and a moratorium were declared. The latter was twice extended and lasted until the middle of March. The Office of Conversion, which maintained a gold reserve for redeeming a small percentage of the currency, was closed. The semi-official Banco do Brasil, however, was permitted to exchange notes for gold, and did so to such an extent that a reserve of \$50,000,000 on July 31 was

reduced to about \$30,000,000 on March 1. The issue of the \$80,000,000 of paper referred to was authorized, and steps were taken looking to the prevention of the exportation of gold from the country.

These measures did not, however, remove the fundamental difficulty in the situation. This difficulty was the unsound financial position of the government, which for several years had been covering annual deficits by new loans, and which on the failure to obtain the proposed loan from Rothschild & Co., found itself without the means either of meeting its obligations abroad or satisfying creditors at home. The Banco do Brasil was forced to ship considerable amounts of gold to England to cover exchange requirements and could give no assistance to the government in meeting its interest obligations. The result was that the government was unable to pay \$7,000,000 worth of treasury bills due in London, August 21, and was obliged to fund these obligations by issuing new one-year bills at 107, with 1 per cent commission for the exchange. Again in October the government was unable to meet interest and sinking fund payments on its external debt and was forced to fund these also into new loans, secured by a guarantee on the customs revenue. Finally the floating debt due to creditors in Brazil itself could not be paid, thus intensifying the seriousness of the business situation. No way out has yet been found and it is this situation which more than any other, even including the lack of a market for coffee and rubber, is causing the pessimism in the business circles in Brazil.

In the west-coast countries the war has produced varying effects because of differences in the economic resources of the different countries and because some were fortified by sounder financial conditions than others. At first there was the same paralysis of business that obtained on the east coast. During the entire month of August (except perhaps in Ecuador), a state of confusion and uncertainty existed. This was particularly true of industrial establishments, which were either entirely closed or run on part time. Unemployment became a serious problem, the solution of which engaged the attention of the various governments although the measures taken afforded only comparatively small relief. Embargoes were placed on the exportation of foodstuffs and this had a beneficial effect on prices. In none of the west-coast countries, however, is the commercial and industrial life so highly developed

as in the River Plate countries or Brazil. Hence the forced readjustment was rendered somewhat easier.

The prosperity of the west-coast countries, like that of the rest of South America, depends very largely on the continued exportation of a few principal products. In Chile the keynote to the situation is the trade in nitrate. A great part of the nitrate produced in Chile is exported to continental Europe where it is used in agriculture. The war practically eliminated this market and there is no likelihood that normal trade conditions can be attained until after the cessation of hostilities. The extent to which Chile was affected by the war will be realized when it is stated that the exports of nitrate amount to practically three-fourths of all the exports of the country. Out of a total of \$142,801,556 worth of domestic exports in 1913, nitrate composed \$111,454,397.

#### EXPORTS OF NITRATE FROM CHILE, 1913

| Exports to  | Spanish quintals (101.4 pounds) |
|---|---------------------------------|
| Great Britain (including shipments for orders) .. | 21,847,342                      |
| Germany .....                                     | 13,680,368                      |
| France .....                                      | 2,640,676                       |
| Spain .....                                       | 147,725                         |
| Belgium .....                                     | 2,580,198                       |
| Holland .....                                     | 2,182,410                       |
| Italy .....                                       | 232,236                         |
| United States .....                               | 13,712,783                      |
| All other countries .....                         | 2,505,372                       |
| Total exports of nitrate .....                    | 59,529,110                      |

This means not only that the owners of the nitrate lands and factories had their income cut off and that thousands of laborers were thrown out of employment, but that the government revenue was radically reduced. The export taxes on nitrate have amounted to about \$30,000,000 annually and have yielded over 60 per cent of the national revenue. Customs receipts showed a decrease of \$11,683,000 or 23 per cent in the first eleven months of 1914 as compared with the corresponding period of 1913. In August and September the customs revenues were only, \$8,313,000 as compared with \$12,421,000 in 1913, a loss of 33 per cent. This may be expected to continue with perhaps only slight improvement, while

the war lasts, unless the country can quickly turn to the development of its latent mineral and agricultural resources.

The unemployment situation was particularly severe. The northern part of the country, in which nitrates are produced, is a rainless desert which has no other resources. When nitrate production ceased, there was no means of earning a livelihood or providing the necessities of existence, either water or food, both of which must be imported. The result was that many villages were practically depopulated and thousands of working men and their families were forced to leave and go to the southern sections of the country. The problem of unemployment was thus rendered much more acute in the agricultural and mining regions of the country. Although some government measures were taken looking to relief, the problem remains a serious one.

The general situation in Chile is rendered much more serious by the lack of a stable currency. In spite of the fact that for years the country has had a bountiful source of revenue, it has failed to put its currency system on a sound basis. The result has been a continual fluctuation in exchange. Speculation in paper is the principal business of the stock exchange. Several attempts to remedy this situation have met with the opposition of the large landholders and employers of labor who find it to their advantage to export their products for gold and pay their domestic obligations in depreciated paper. At the beginning of the war, however, a plan was being put into execution to establish a conversion office and stabilize the currency. This plan was to have gone into effect January 1, 1915, and supplies of gold were being brought into the country for that purpose. The war, of course, made the execution of this plan impossible. The result has been great fluctuations in the value of the paper peso. From a normal value of twenty cents it had fallen to nineteen cents shortly before the war. By September 16 it was down to thirteen and one half cents, the next week it rose to sixteen cents, in October and November it fell again to fifteen cents. Since that time its value has been erratic.

Among the emergency measures taken by the government were: the sale of two war vessels building in Great Britain and other vessels, which were said to have brought in a total of \$25,000,000; the issue of \$20,000,000 worth of one-year treasury bills bearing no



interest and guaranteed by the supplies of gold which had been collected to carry out the conversion scheme; the reduction of all government salaries and other economies and retrenchments; and the proposal of new taxes on inheritances, property, and salaries and the increase of taxes on beer, alcohol and tobacco. These measures have been of assistance in steadying the business situation but the fact that the principal financial support of the government and of the productive interests of the country have failed makes readjustment a more drastic and far-reaching process than in the other countries. There is no question that Chile has been hard hit by the war and it will take months or years for her to entirely recover.

Peru is rich in minerals, and mineral production is an important source of revenue. Its chief mineral product, copper, has been in constant demand. The largest single item of export, however, is sugar, which has commanded high prices. Among its important minor products is wool, for which record prices are now being paid. Peru, therefore, was not basically in a bad position. The principal immediate effect of the war was an industrial paralysis. Many factories closed down entirely and others discharged a large percentage of their employees. In most cases this was due to the lack of immediate capital to carry on manufacture. The customs receipts, like those of other countries, showed a considerable falling off and in 1914 amounted to only \$4,699,000 as compared with \$6,483,000 in 1913, a decrease of about twenty-seven per cent. There was a deficit of \$462,000 in the year's budget. An important feature of the situation, however, has been the fact that foodstuffs have remained cheap and that an embargo placed on their exportation temporarily lowered prices. This together with the action of the government in providing work on railway construction has to a limited extent relieved the unemployment situation. The curtailment of copper production has had a depressing effect. In one respect the country was in a good position to meet the crisis—it had no paper money in circulation except that issued by the banks on their own responsibility. The government was, therefore, able to authorize the banks to issue \$5,353,000 in the middle of August to be secured by a 35 per cent deposit of gold and the rest by securities. In October another issue of notes to the amount of \$5,353,000 was authorized. These notes drove gold and silver out of circulation

but the government met the situation by passing a law on November 3 forbidding the sale of gold at a premium. The exportation of gold and silver was also forbidden. A thirty-day moratorium was declared on August 7, was extended several times, and is now effective for an indefinite period. While there are a number of features in the situation in Peru which make for stability, the country can hardly be considered wealthy except in latent mineral resources. It is only in the last ten or fifteen years that Peru has been making economical progress and it has yet a good way to go before it attains healthy conditions of national growth.

Bolivia, from the time when the first white man set foot on its soil, has been a producer of minerals, and with a limited amount of rubber and other forest products, these have continued to form practically its sole output. Until ten or a dozen years ago silver held the center of the stage but the rise in the price of tin has made the mining of that metal more profitable.

Bolivia has depended almost entirely on its tin and to a lesser degree on silver. No tin has been smelted in the United States. This has been a European industry. The United States, however, is the greatest consumer of tin in the world. If, therefore, some provision can be made whereby the tin ore can be smelted in this country, normal conditions will be restored in Bolivia and a new industry begun in the United States. This readjustment has not yet been effected and Bolivia has continued to feel the paralysis of its export trade which followed immediately upon the outbreak of the war.

Ecuador was in the best position of these four countries. Its economic life depends largely on the exportation of cocoa and the very large crop of last year had practically been marketed before the outbreak of the European war. Ecuador, moreover, is not a country of large commercial enterprise and the readjustment to the new conditions was easier for her than for her neighbors.

The principal complaint of the north-coast countries is that since the first of August practically all credit has been withdrawn and they have been unable to obtain their usual supplies. Naturally they felt this most keenly in the matter of foodstuffs. They had been accustomed to long credits from Germany and England and to somewhat shorter credits from the United States. Upon the outbreak of the war, however, even thoroughly responsible houses found

it difficult and at times impossible to obtain goods on credit either from Europe or from this country. The result of this has been a marked falling off in the import trade and a corresponding decrease in the export trade due to the inability to market their principal products. These products are coffee (which is by far the most important), hides, cocoa, gold, and rubber. In Venezuela the previous year's crops had not been wholly marketed by the first of August and the harvesting of the new crops was made difficult because of the lack of money. The immediate cost of gathering the crops of Venezuela amounts to \$2,000,000 or \$2,500,000 which for several years has been supplied by German firms. General stagnation in business resulted with a consequent rise in prices and reduction in salaries. The government of Venezuela cut the salaries of government employees in half and this example was followed to a certain extent by commercial houses. Biscuits, canned meats, cheese, butter, ham, flour, lard, sugar, cotton goods, drugs and medicines, ironware, machinery and other commodities rose from 15 to 20 per cent in price, while rice, one of the most important staples of Venezuela, increased by 40 per cent. These conditions have pretty generally prevailed in Venezuela up to the present time.

In Colombia, as in Venezuela, prices rose on practically all imported foodstuffs, especially rice. This condition has continued to a greater or less extent up to the present. In Colombia, however, one or two features of the situation seem to give promise of more prosperous times in the near future. One of the noticeable features of the situation has been that the government, although considerably affected by the new conditions, has not defaulted in the payment of its interest obligations abroad. A month or two after the war a decided improvement in conditions at the principal port was reported and the outward cargo movement considerably increased. A later report about the first of January noted that the commercial situation was improving, that exports were normal although there were many unemployed. In the Guianas the principal export is sugar and they have therefore not felt the effects of the war so keenly. Their trade, in fact, is not far from normal. Throughout all the north-coast countries as well as throughout the countries of Central America, the inability to market the coffee and other products at good prices and the difficulty of getting the usual imports

on the expected credit terms have created a depression which will hardly disappear before the close of the war.

III. Thus in all parts of the continent there was a paralysis of nearly all activities immediately following the beginning of the great war, and this was followed by a natural revival which was feeble or strong according to the character of the resources of the various sections and the state of affairs preceding the war. In spite of the unfavorable outlook in July, the River Plate countries, or at least Argentina and Uruguay, have recovered most quickly and show the greatest signs of prosperity. This is due in large part to the fact that their chief products are in demand across the sea and very good crops have given them a large surplus for export. By the end of January the exports of all principal products except linseed from Argentina had about reached normal proportions and shipments of all grains, meat and wool have been heavy since the first of the year. The following figures of exports of these products will show the increased volume of the trade over last year, and will serve as a contrast to the comparative figures for August and September previously quoted:

| Exports for week ending | Wheat<br>Metric tons |         | Corn<br>Metric tons |        | Linseed<br>Metric tons |        |
|-------------------------|----------------------|---------|---------------------|--------|------------------------|--------|
|                         | 1914                 | 1915    | 1914                | 1915   | 1914                   | 1915   |
| January 29.....         | 39,858               | 23,679  | 37,322              | 78,049 | 46,134                 | 19,619 |
| March 12.....           | 56,146               | 109,426 | 13,519              | 62,354 | 50,815                 | 40,352 |
|                         | Oats<br>Metric tons  |         | Wool<br>Bales       |        |                        |        |
|                         | 1914                 | 1915    | 1914                | 1915   |                        |        |
| January 29.....         | 31,309               | 50,185  | 13,321              | 16,860 |                        |        |
| March 12.....           | 9,273                | 20,526  | 6,050               | 20,456 |                        |        |

These figures show that the lifeblood of the country is coursing freely. Prices received for these products are good, and deposits amounting to as much as \$5,000,000 a week are being made in Argentine legations in Europe. Imports, on the other hand, as

indicated by the customs receipts, are still far below normal. At the Buenos Aires custom house the receipts for 1915 up to March 12 were \$6,477,411 paper, as against \$12,863,005 paper and \$372,311 gold for the corresponding period last year. The proportion of receipts to this date in 1915 as compared with 1914 is hardly greater than that of the receipts last August as compared with the previous August.

The following figures will show the steady advance in the volume of business transacted by the banks since last July. They represent the movement in the Bankers' Clearing House at Buenos Aires (figures are in terms of Argentine paper peso, worth \$0.424 U. S. Currency):

| Months         | 1913-14       | 1914-15       |
|----------------|---------------|---------------|
| July.....      | 1,495,935,402 | 1,144,762,179 |
| August.....    | 1,322,112,617 | 446,626,599   |
| September..... | 1,372,702,435 | 664,191,953   |
| October.....   | 1,447,982,009 | 739,126,362   |
| November.....  | 1,249,818,887 | 814,168,216   |
| December.....  | 1,407,140,798 | 1,016,845,465 |
| January.....   | 1,414,180,605 | 992,918,636   |
| February.....  | 1,212,189,351 | 1,056,520,090 |

A report of March 8 stated that wheat exports to that date had aggregated 1,200,000 metric tons, or about 44,000,000 bushels, which was more than the entire exports of the 1913-14 crop. The report further says that the crop of all grains at that time promised to be one of the best ever harvested in the country.

The rate on money, which remained at 8½ to 9 per cent during all the latter months of 1914, has been lowered to 7 per cent and even lower, at which figure it stood on March 8.

All this indicates that the country is getting on a sound basis financially, and the coming of prosperity would seem to depend more upon careful management and the restoration of confidence than anything else. The liquidation that has been under way for a year or two, however, is not yet ended, as the record of commercial failures in February shows. The liabilities of these failures amounted to \$8,561,685, as compared with \$13,105,001 in February of last year. This was a notable decrease, but on the other hand, although February is a shorter month than January, the liabilities exceeded those of the previous month which were \$6,504,027. The country is not yet out from under the cloud that has

been hanging over it for two years, and recovery must be gradual. It is said, however, that a decided spirit of optimism prevails and the return before the year is very old to normal times or better is looked forward to.

The recovery of Uruguay is also noticeable, although it is still gradual. Wool shipments up to the middle of March were running only about half those of the previous year, the figures for the 1913-14 season (beginning October 1) being 82,361 bales up to March 12, while those for the corresponding period of the 1914-15 season were 44,121 bales. It may be added that of the shipments this year 24,673 bales went to Genoa as compared with 2,854 bales in the corresponding period of the previous year, and 7,114 bales to the United States, as compared with 9,138 bales. The smaller shipments this year are due partly to the lack of shipping facilities, unfavorable service, and unfavorable exchange rates. The import trade is slowly improving, as is evidenced by the gradual gain in customs revenue, about one-seventh of which comes from export duties and the rest from import duties. The figures of receipts from the customs in each month from last July to February are shown in the following table (these figures are for Uruguayan pesos; peso = \$1.034 U. S. currency):

|                | 1913-14    | 1914-15   |
|----------------|------------|-----------|
| July.....      | 1,320,517  | 1,105,750 |
| August.....    | 1,372,658  | 829,732   |
| September..... | 1,378,187  | 831,592   |
| October.....   | 1,179,810  | 806,026   |
| November.....  | 1,111,329  | 707,652   |
| December.....  | 1,248,386  | 893,877   |
| January.....   | 1,422,127  | 942,270   |
| February.....  | 1,269,502  | 925,246   |
| Total.....     | 10,302,520 | 7,042,149 |

The figures for February are somewhat misleading on the surface, as that month has but 28 days. The daily average for February was 10 per cent higher than for January.

The recovery noted in the River Plate region, however, has not been duplicated in Brazil. That country has yet to find a pathway out of the financial and economic ills with which the war and the previous national extravagance have surrounded it. The salvation of the situation seems to depend on the wisdom and resourcefulness of the present government.

Although some observers regard the situation as desperate, it has some favorable elements. Chief of these is the strong position of the banks, which have throughout followed a wise and prudent course, and have been able in the last few months to fortify themselves because of the lack of demand for loans and discounts. On December 31, the cash on hand in the Banco do Brasil and the six leading foreign banks was 60.3 per cent of the demand deposits. It must also be considered that the revival of business in the crisis of 1898 was very rapid after the reorganization of the country's finances, and this may occur again. The present import tariff is said to be much too high, and not only increases the cost of living but keeps down the revenue derived from the customs. A revision of this tariff is likely to take place during the coming session of Congress in May and this may be of benefit not only in relieving internal conditions but also in providing a sorely needed addition to government receipts of gold. If in addition to this the government can obtain considerable loans from the United States (though this is doubtful) its finances may again be set in good order. One feature of extreme importance is the fact that coffee can be stored for years without deterioration, and the surplus that cannot be marketed now will therefore not be a dead loss. The government is doing all it can to establish new agricultural industries such as cotton-raising in the north and cattle and fruit-raising in the south. These efforts if successful will put the country on a sounder basis, although nothing is to be expected from these enterprises in the immediate future. It will be interesting to observe what the genius of the Brazilian people can accomplish in extricating the country from this accumulation of economic difficulties.

Figures showing features of the present situation as compared with that a year previous follow:

|                               | January 1914      | January 1915      |
|-------------------------------|-------------------|-------------------|
| Federal customs revenue. .... | 7,961,333 milreis | 3,179,383 milreis |
| Federal inland revenue. ....  | 2,153,347 milreis | 2,260,690 milreis |

Clearances of coffee at Rio de Janeiro and Santos for the week ended February 18 amounted to 427,795 bags, as against loadings of 399,995 bags. Sales of only 127,539 bags were declared at the two ports, as against 273,684 bags for the previous week and 105,795

bags for the corresponding week last year. Entries at the two ports for the week amounted to 319,075 bags, as against 321,648 for the previous week and 123,600 for the week ended February 19 last year. For the crop entries to February 18 were 9,761,849 bags, as against 11,784,861 bags last year. The total cleared from the two ports to February 18 was 8,154,118 bags, valued at £16,546,395 as against 10,737,956 bags valued at £31,373,128 last year.

The heavy drop in quotations of government and industrial securities from 1914 is indicated in the following list, showing quotations for February 20 of the two years (from *Wileman's Review*, Feb. 23, 1915):

|                                  | 1914 | 1915 |
|----------------------------------|------|------|
| 4 per cent, 1889.....            | 75½  | 51½  |
| Funding, 1898, 5 per cent.....   | 101  | 98   |
| Funding, 1914.....               | ..   | 74½  |
| 1910 4 per cent.....             | 74   | 52   |
| Sao Paulo 1888.....              | 97   | 91½  |
| Sao Paulo 1913.....              | 99½  | 89½  |
| Leopoldina stock.....            | 73½  | 36½  |
| Sao Paulo Railway, Ordinary..... | 243½ | 189  |
| Traction Ordinary.....           | 91½  | 50½  |
| Brazil Railway.....              | 32   | 7    |
| Dumont Coffee Co. (Ltd.).....    | 10   | 8½   |
| Consols.....                     | 76½  | 68½  |

Recent advices from Chile are meager and it is thought the country is for the present doing little more than marking time. A report, however, dated February 23, is to the effect that the production of nitrates since August, 1914, has been as follows: August, 4,830,233 Spanish quintals; September, 2,856,600 quintals; October, 2,865,494 quintals; November, 2,659,875 quintals; December, 2,428,759 quintals; January, 1915, 2,082,549 quintals. This is compared with an average monthly production from January to July of 5,404,729 quintals. It will thus be seen that although the output is dropping off slowly month by month it is yet 40 per cent of normal. Stocks are accumulating and it is estimated that there is now enough nitrate on hand to supply a year's export at the usual rate. It is understood that the enterprises in which American capital is in control, nitrate factories and copper mines are continuing active. The increase in copper prices (as noted on page 94) has created considerable optimism among the producers of that metal in Chile,



and it is believed that a number of mines and smelters forced to close down will be reopened or have been so already.

In Peru certain favorable basic elements have led to the gradual improvement of conditions and considerable optimism prevails. This optimism is illustrated by the views of a prominent business man connected with a large American export house doing an extensive business in Peru.

The country is producing on a scale much greater than its consumption and this leaves in its favor a balance of trade representing solid gain. The most important product of this country is sugar, the production of which is increasing daily and it would not surprise me to see the production for 1915 reach a total of 5,000,000 quintals, which at the prices ruling today represents a value of 30,000,000 soles (sole=48.6 cents), of which sum it is probable that 12,000,000 soles go to the producer. Also in cotton, although the year's crop will be very inferior and although the price of Egyptian is less than that ruling in previous years, there is still a margin of profit for Peruvian producers that is relatively satisfactory, and as for the asperos (rough) and semi-asperos cottons, they are selling at exceptionally high prices. Copper is higher today than before the war, and the same with rubber. The wool of ewes and alpacas is bringing very good prices, as well as all the by-products, skins, furs, etc., encountering an easy and profitable market. Inasmuch as Peru is producing normally and can find satisfactory markets for its products, the country is in an exceptionally favorable position. It is a basis so solid and so secure that it augurs an excellent future, even within the critical era through which we are passing.

Furthermore, the general financial situation of the country has improved notably. The issue of banknotes was a sheer necessity because there does not exist sufficient gold in the world, nor will there be, to allow any country to do without paper money. We have been very fortunate in securing a paper issue so strongly guaranteed as that at present in circulation and thus we have a solid base for the financial organization of the country. It is necessary that all of the institutions of the country protect the banknote in every way possible in order to prevent its depreciation. The lack of silver change, which at the beginning was very accentuated, owing to the fact that all of the banknotes were launched upon the Lima market, has already become less marked, and as the banknotes have been circulated through the Provinces the supply of silver money has adjusted itself in such a manner that today throughout the country there is sufficient silver for necessities.

The industrial life of the country is also slowly returning to more normal conditions. Although many establishments are not working up to their full capacity they are operating sufficiently to give their employees enough income to meet their living expenses, and, as a result, in no part of the country are there men out of work, except a very small percentage. Peru in this way is in a very fortunate position and the country has not been forced to face the famine conditions which today exist in many countries of the world.

The government revenue has declined considerably through the decrease in

the customs returns but there has been a similar decrease in all countries. The increase of the revenue from other sources will largely meet this deficit while the remainder would naturally be covered by the economies which the government should practice, as all private individuals with foresight are practicing economies today.

The increase in copper prices in recent months has been one of the chief causes of the better trend of events in Peru. The range of copper prices since January, 1914, as quoted for Peru in accordance with the London standard, was as follows:

| 1914<br>Month  | Price per<br>metric ton | 1915<br>Month | Price per<br>metric ton |
|----------------|-------------------------|---------------|-------------------------|
| January.....   | \$312.92                | January.....  | \$300.79                |
| February.....  | 317.63                  | February..... | 306.59                  |
| March.....     | 312.80                  | March.....    | 321.67                  |
| April.....     | 315.09                  |               |                         |
| May.....       | 307.47                  |               |                         |
| June.....      | 298.49                  |               |                         |
| July.....      | 295.59                  |               |                         |
| August.....    | No quotations           |               |                         |
| September..... | No quotations           |               |                         |
| October.....   | No quotations           |               |                         |
| November.....  | 259.02                  |               |                         |
| December.....  | 276.61                  |               |                         |

Late in March one of the large mining concerns was operating at about 70 per cent of normal and another, an American company and the largest in Peru, was operating at 85 per cent of normal.

In the north-coast countries, as in Central America, the principal hope of greater prosperity, at least while the war continues, lies in closer relations with the United States. A project has been under way for some time looking to the establishment of an American bank in one or both of the north-coast countries and if this is effected it will have an excellent influence on the commercial situation. These countries sadly need capital and credit, and both of these, it is hoped, will be forthcoming from the United States as soon as our business men become better acquainted with conditions there. Better steamship facilities are also a requisite. These, if provided in the near future, will greatly brighten the outlook for Colombia and Venezuela. As it is now, however, business must await this assistance or the closing of the war before it can expect a return to normal conditions.

It was only natural that when the crisis arose at the outbreak

of the European war the countries of Latin America should look to the United States for assistance. They have looked and are looking to the United States to supply a market for their surplus products, to secure the credit for making new purchases, and to advance the loans to take the place of European capital which has been withdrawn. Heretofore South American countries have known as little about the United States as this country has known about South America or perhaps even less. Mutual understanding and acquaintance are necessary before the United States can take even in part the place which Europe occupied before the outbreak of the war. This process of getting acquainted is going on as rapidly as might be expected. With the establishment of banking institutions such as the branches of the National City Bank in Argentina, Brazil, and Uruguay, a great advance may be expected in the promotion of more intimate relations between the United States and Latin America.

The pertinent question which every manufacturer and exporter must ask himself, however, is whether or not conditions in South America warrant his taking up the active development of that market. It has been my purpose in the brief review which I have made of the situation immediately following the outbreak of the European war and the recovery which has been accomplished to date, to give the necessary facts for forming a judgment on this point.

The most important aspect of the situation, however, and one which should count most in determining our trade invasion of Latin America is not so much the present conditions there, which on the whole promise hope, but rather the attitude of the American manufacturer and exporter. The American manufacturer should use, in developing the Latin American market, the same sane, common-sense business methods which he has so successfully used in developing the domestic markets in the United States. The manufacturer or merchant who treats the Latin American field as one which is not amenable to the application of the same business methods as he would use at home is not going to be successful.

Whether the American business man thinks that he can get immediate orders in South America or whether he thinks he cannot, his program of action should be substantially the same. It is absolutely necessary that before thinking of making profits out of this

new market which he expects to develop he should give it very careful study. Now is the time for the American manufacturer to lay the foundations of future business in Latin America; now is the time, in spite of any handicaps which may exist in the present commercial or financial situation in Latin America, for the American business man to lay the foundations for future trade; now is the time to send out his investigators, to send out his business diplomats to study and report on the possibilities; now is the time to make his connections and form trade relations which he can follow up and develop in future years.

The countries of Latin America which were almost paralyzed commercially, industrially, and financially by the outbreak of the great European war are showing remarkable vitality and are gradually recovering. It cannot be expected that they will fully recover their normal prosperity before the close of this war, but on the whole they have already gone much further toward recovery than might have been expected from an analysis of the situation which confronted them immediately after the first of August.

## EXISTING OBSTACLES TO THE EXTENSION OF OUR TRADE WITH CENTRAL AND SOUTH AMERICA

BY MAURICE COSTER,

Export Manager, Westinghouse Electric and Manufacturing Company,  
New York City.

As a preface I may say that we need not look for any great improvement in trade with Central and South America until the war has been brought to a close. English bankers have been forbidden by their government to participate in financial undertakings outside of Great Britain. Undoubtedly, similar restrictions have been imposed by the governments of other warring nations. The Central and South American countries, with the possible exceptions of the Argentine Republic and the United States of Colombia, are not in a position to finance new enterprises.

Some of our American bankers have taken the commendable lead in establishing branches in some South American countries. I doubt, however, if these bankers will, under existing conditions, be justified in extending their business in those countries to any considerable extent or to finance enterprises as was done formerly by foreign banks.

The Second National Foreign Trade Convention, recently held in St. Louis, meetings of various chambers of commerce and export associations, the recent very important annual meeting of the American Academy of Political and Social Science and the Pan-American Financial Conference will assist our foreign trade but little if existing laws and policies are not changed.

In order to insure permanent success and an increase in our export trade, we must revise our statutes in so far as they relate to these subjects. For instance, we should have a law admitting to American registry all vessels, whether built in the United States or not, when owned chiefly by American citizens or by American corporations, and when engaged in foreign trade with the United States, such vessels should be exempt from the provisions of the American navigation laws. The special regulations appertaining to the treatment of crews, to safety appliances, etc., of such vessels

should conform to those of the merchant marine of the great maritime nations.

It may surprise some of you to learn that, in the past, ships of certain foreign nations have not only discriminated against our merchants in the matter of rates, but they have deliberately delayed the delivery of American cargoes in the interest of their own nationals. Frequently the demurrage charges, incident to such wilful delays, have been paid by foreign associations or foreign governments. Hence, the great importance to our export trade of having our own merchant marine.

The Seamen's Bill should be amended so as to apply only to coastwise trade and that of the Great Lakes. It is necessary to have vessels running direct between the ports of the United States and those of Central and South America, providing the very best of passenger accommodations in order to induce our Latin cousins to visit us and spend some of their holidays here so that we may become better acquainted. Before the war they usually went to Europe. Those who came here had to take the additional time of crossing the Atlantic twice or endure inferior accommodations. We cannot have such ships if the Seamen's Bill is not amended as suggested above.

There has been considerable agitation of late regarding the creation of a new merchant marine. How can we hope to succeed in this if, in the face of all the earnest work done on this account, such a law as the recently enacted Seamen's Bill must be respected? This bill has undoubtedly many very good points but it should not apply to foreign trade. If it does, we will kill the small merchant marine we now have and American labor cannot be benefited if there are no American ships. It is also a mistaken idea that this law will protect American labor on ships of other nations trading between this and foreign countries, inasmuch as the vessels engaged in this trade are usually manned by foreigners and the question suggests itself why should we go out of our way to protect foreign sailors at the expense of our foreign trade?

Railroads and steamship lines should be permitted at all times to issue through bills of lading to foreign countries and to make special rates to meet foreign competition. The railroads should make preferential freight rates on shipments of manufactured articles from inland points to the coast. This is the common practice

in foreign countries. The railroads will not suffer by this reduction in rates as it will not interfere with their domestic business and they will be compensated by increased foreign shipments.

The Sherman Act should be amended in order to exclude from its provisions foreign business. The amended law should be so clear as to leave no doubt as to its interpretation.

Laws relating to drawback, being a refund of duties on materials used in the manufacture of articles exported, should be amended so as to encourage our foreign trade and to conform to similar laws already in successful operation in foreign countries for some years past.

In addition to the above, Congress should appropriate sufficient funds to permit the United States to be represented by able men in Central and South America. We should not be content to have the type of man who is limited in his traveling expenses to a daily allowance of \$5 and, consequently, cannot represent our government in a manner to command respect. We need men of the class employed by foreign governments who are able to make reliable reports on the activities and methods of our foreign competitors and the conditions surrounding proposed industrial undertakings, reports on which our banks can place absolute reliance when they are requested to assist in the financing of enterprises.

You will probably be surprised to know that some of these foreign representatives at present act in the capacity of "trade spies," so to say, and furnish their governments with information concerning the business done by subjects of competing countries. They even go to the extent of supplying their governments with detailed copies of invoices of American manufacturers which they can easily obtain when the invoices are made collectable through foreign banks.

Our government should adopt a definite policy favoring foreign trade. Under this new policy it should become impossible to have our experience in Mexico repeated, whereby about one billion dollars of American investments have been allowed to suffer. All present laws and policies, having for their object the benefiting of foreigners at the expense of American enterprise, should be repealed or amended.

Our government should use its influence to induce all the Central and South American republics to make their tariff laws

dependent on specific duties, based on weights or otherwise, and not on *ad valorem* values. The American exporter suffers very much from the illegal practices of some foreign manufacturers who swear to undervaluations amounting to as much as from forty to sixty per cent of the true invoice value, whereby they are enabled to pay less duty on their goods, thus placing American exporters, who will not condescend to these fraudulent practices, at an unfair disadvantage.

After the present obstacles have been removed by the enactment of suitable laws and the adoption of a favorable governmental policy, we will be able to call on the bankers for more help than I am inclined to believe they intend to give under existing conditions. If we wish to compete effectively with foreign countries, our banks should be prepared to assist in financing Central and South American governments and deserving enterprises in those countries just as foreign banks have done for years with scarcely any losses. Our banks cannot be expected to do this under the present governmental policy.

Foreign manufacturers have, in the past, investigated foreign enterprises and, upon favorable report of the government agent or other responsible party, have been able to secure the assistance of their banks in financing these undertakings. Credit was then usually extended on first mortgages as security for acceptances running for a term of from three to five years. These first mortgages provide the investor with the most ample protection. The foreign manufacturers are thus enabled to obtain cash for their goods while their banks have secured from eight to ten per cent interest on acceptances which they have been able to rediscount at from three to four per cent. The French have established several loan associations in South America which, after investigating some of the foreign financed undertakings and having found them to be good properties, have taken over the acceptances of some foreign banks before they became due, thereby enabling the original promoters to come into possession of the funds they have advanced much sooner than at first anticipated.

When referring to financing of foreign undertakings, I do not wish to convey the idea that, if a man comes to this country and asks for, say, six months' credit, he should be accorded this accommodation. In fact, we should refuse to extend to such a man any credit



whatever, for in case he should default, we would not be in a position to commence legal proceedings against him unless we have a representative of standing in his native country. Furthermore, a man asking for six months' credit is not in a position to accurately estimate his profit as, in six months, rates of exchange may be such as to convert his estimated profit into loss. If this man has the proper standing in his own country, he will be able to discount his notes easily locally as the banking facilities in ordinary times have been very good in South American countries, there being in addition to local banks, English, German, French, Italian and Belgian banks which are nearly always ready to discount good commercial paper charging, of course, a greater rate of interest than is customary in the United States.

We must not deceive ourselves in expecting that the war will so cripple our European competitors as to make their competition negligible in the future. We must not expect to take away much of the trade formerly held by our foreign competitors, chiefly the Germans and the British, unless we are put as nearly as possible on an equal footing with them.

In conclusion, I wish to say that the American press have, with praiseworthy activity, taken a great interest in our foreign trade with practically the only result of increasing our mail with applications for imaginary positions in connection with our export business. It seems to me that one of the first things to be done, in order to obtain the somewhat seemingly radical changes of laws and policies suggested, is to educate the press. Show them what really is required to increase our foreign trade and have them in turn, post the masses who, together with the former, should influence necessary legislation. They must make the American public realize that every dollar we export in merchandise makes the American nation so much richer and that the American laborer will be benefited to a proportionate extent. They must also be made to understand that foreign trade is absolutely necessary as a "filler-in" in times of depression. We should encourage our press to write leading articles on the proposed changes and to agitate the matter before the public in such a vigorous way as to make the laboring man understand that what is suggested above is in his interest. The voters should use their influence with their representatives in Congress and with the government to bring about the new laws and policies.

The representatives of the press should interview leading exporters who understand foreign business and obtain their views and reasons for wishing to create the new conditions. Let them explain to their readers that we ask for no special privileges and no subsidies, but on the other hand we should not be hampered by unjust and unnecessary regulations.

We can, in most instances, overcome the difference in cost between American and European labor by our more extensive and ingenious methods of manufacture, but we should not be required to do more than this.

## THE PRESENT FINANCIAL SITUATION

BY FRANK A. VANDERLIP,<sup>1</sup>

President, National City Bank, New York.

It seems to me that it takes a great deal of courage to tell you what the effects of this war on the finances of America are to be. I know, however, that most of us do not appreciate the gravity of the war. We do not fully appreciate the tremendous forces that have been set in motion, nor do we well apprehend the direction in which we are moving.

Let us take a broad view of the facts which we do all know. We all know that ten billions of war bonds have been issued. Those figures are so large that it is impossible really to comprehend what they mean except by comparison with the indebtedness that has been issued before by these nations or by their total wealth. I happened to note in a newspaper clipping today an estimate of the wealth of different nations and I was struck by the fact that the amount of war bonds already issued is about equal to the total wealth of Spain and the Netherlands. This is a striking comparison. We have suggestive figures, but we do not really know what the cost of this war is for a year—not the cost in the creation of securities alone—but in the capitalized value of the lives lost and in the effect of industry impeded. I do not know how accurate the statement may be, but an eminent English economist has suggested that the cost might reach forty-six billion dollars. That is half the wealth of Great Britain.

This is a destruction that our minds have not attempted really to comprehend. We can hardly take it in. Now, if this great destruction has been going on, why have we not felt it more? Why is it that the world is still fairly cheerful? We have rising stock markets, not only here but abroad, rather an industrial boom in the stock market of Germany, and surprisingly easy money everywhere. Can we stand that sort of destruction of wealth and have nothing serious follow? It might seem so from the facts as we see them now,

<sup>1</sup> Remarks as presiding officer at the fifth session of the Annual Meeting of the American Academy held in Philadelphia on April 30 and May 1, 1915.

and as they concern us now, but I believe the effect has not yet been really felt. There have been an inflation of note issues and an inflation of credit which have prevented the world from feeling this shock, but my own opinion is that a shock is eventually going to be felt more severely than our rather superficial consideration has yet given us cause to anticipate. I can however only call attention to what seems to me the seriousness of the situation and cannot attempt at this time to go into any real analysis of it.

## THE EFFECT OF THE WAR ON AMERICA'S FINANCIAL POSITION

BY THOMAS W. LAMONT,

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In analyzing the financial effects of the war, our first view must be in retrospect. The first effects which we witnessed were just prior to, or contemporaneous with, the outbreak of the general war. Those effects were calamitous. We saw our high-grade securities fall with great violence; we saw the entire fabric of foreign exchange, built up over many generations, knocked completely awry; we found ourselves unable to buy sterling exchange wherewith to pay our debts in London. Our gold was being exported in great volume. Within the two weeks after the outbreak of war between Austria and Servia we sent out \$55,000,000 of gold. Domestic rates for money advanced to a high figure, and even at that money was scarce and hard to obtain. Ocean transportation was violently disarranged. It was impossible to get bottoms wherein to ship; and the rates for marine and war insurance ran so high that manufacturers could no longer afford to ship. To a period of general business depression that had existed for many months was added almost complete prostration of trade in various lines particularly affected by the phenomena just enumerated.

The remedies that the country took to save these serious situations just described were prompt, logical and effective. Our securities were being dumped upon us in large volume by foreign holders. Therefore, we closed our stock exchanges so as to prevent an overwhelming flood of such sales. Gold was being exported and there was danger of a money panic. Therefore our banks went upon a clearing house certificate basis, and plenty of currency was assured to us by reason that under the Aldrich-Vreeland Act \$400,000 of additional currency was almost immediately issued. Our bank situation was strengthened by the efforts to put into prompt working order the new institutions established under the Federal Reserve

Bank Act. With equal logic, when it was found that our ocean transportation was all upset, the Federal Marine Insurance Act was passed, thus making it possible for manufacturers to ship under reasonable rates of insurance.

When London and Paris, in which two cities New York City had outstanding a total of over \$80,000,000 due and payable before January 1, 1915, began asking whether they were going to get their money, New York City responded through her bankers in the formation of the famous \$100,000,000 syndicate. Under the terms of this syndicate New York City sold \$100,000,000 of its 6 per cent notes, receiving payment therefor to the extent of \$80,000,000 in gold, or adequate exchange, and thus showing the world that under the most difficult conditions she would certainly pay her debts. When other foreign creditors of America raised some question as to their position, the banks of the country organized a gold pool of \$100,000,000 to show that there was plenty of gold that could and would be exported, if necessary. When all the South seemed on the verge of a financial breakdown, owing to the depression in the cotton industry, there was organized a banking pool to lend up to \$150,000,000 on cotton and, therefore, to bring order out of chaos in that region.

All these remedial measures were taken quietly and effectively, a comparatively few active and patriotic men acting as leaders, but with the loyal and united support of the whole financial community, East and West, North and South. Never did all parts of the country act in coöperation more harmoniously than they did at that time, and I believe that the spirit of the harmony then aroused is something to reckon with and to be glad for, for a long time to come.

Those perplexing and even agonizing days seem now to have passed. What is the situation today?

There has, in effect, been a tremendous reversal of conditions. Money is easy, we are importing gold on a good scale, having already brought back over \$50,000,000 of what we sent out last year. Our stock exchanges are opened, with the trading free as air, not hampered by the minimum limits which still rule on the London stock exchange.

As to foreign holdings of our securities, they are still being sold to us in large volume, and we are easily absorbing them. We even welcome such sales, for they serve to ease up the foreign ex-

change situation which now has turned almost as heavily in our favor as, last September, it was against us.

Note well these sure indications of how we are turning from debtor into creditor: it costs England  $1\frac{1}{2}$  per cent more than normal to make her remittances to us; it costs France  $2\frac{1}{2}$  per cent; Germany over 12 per cent and Russia nearer 20 per cent.

We are piling up a prodigious export trade balance. By the end of the government year, June 30 next, it looks as if it would be over one billion of dollars. Many of our manufacturers and merchants have been doing wonderful business in articles relating to the war. So heavy have been these war orders, running into the hundreds of millions of dollars, that now their effect is beginning to spread to general business which, even if it is still depressed, shows distinct signs of improvement.

And as a climax to all this improvement, America is becoming a large factor in the international loan market. These foreign loans have been so scattered that perhaps the total of them has not been fully appreciated, but just let me enumerate:

To various municipalities and provinces in Canada, American investors have, since January 1, 1915, loaned over \$60,000,000;

To Russia, twenty-five millions, in addition to private credits which that government has arranged to approximately the same amount, I should guess;

To France, forty million dollars, or thereabouts;

To Germany, it is stated, although I am not sure of my figures, about ten millions;

To Switzerland, fifteen millions;

To Norway and Sweden, about three millions apiece;

To the Argentine, forty million dollars;

The grand total, therefore, of these foreign loans that we have made since war broke out is well above two hundred million dollars.

Such is the situation today. Now what of the future? Many people seem to believe that New York is to supersede London as the money center of the world. In order to become the money center we must of course become the trade center of the world. That is certainly a possibility. Is it a probability? Only time can show. But my guess would be that, although subsequent to the war this country is bound to be more important financially than ever before, it will be many years before America, even with her wonderful re-

sources, energy and success, will become the financial center of the world. Such a shifting cannot be brought about quickly, for of course to become the money center of the world we must, as I have said, become the trade center; and up to date our exports to regions other than Great Britain and Europe have been comparatively limited in amount. We must cultivate and build up new markets for our manufacturers and merchants, and all that is a matter of time.

Therefore, I think I am warranted in saying that this question of trade and financial supremacy must be determined by several factors, a chief one of which is the duration of the war. If, as all humanity is bound to hope, the war should come to an end in the near future, our position would still be much different from, and more important than, what it was prior to the war but, on the other hand, we should probably find Germany, whose export trade is now almost wholly cut off, swinging back into keen competition very promptly; and we should find that the building up of our foreign trade would be a much slower matter than if the war were to continue indefinitely, thus leaving those foreign fields of trade endeavor more open to us.

Another factor, depending upon the duration of the war, is the extent to which we shall buy back American securities still held by foreign investors. Just prior to the war and since its outbreak we have bought back hundreds of millions of such securities, but the amount still outstanding in the hands of foreign holders must aggregate several billions of dollars. If we should continue to buy such securities back on a large scale—and the chances are that if the war continues long we shall do that—then we should no longer be in the position of remitting abroad vast sums every year in the way of interest. It would not be necessary for us to secure so much exchange on London and Paris. We should be paying the interest upon our debts to our own people, not to foreigners. Such a development would be of the utmost importance for this country financially.

A third factor, and that, too, is dependent upon the duration of the war, is as to whether we shall become lenders to the foreign nations upon a really large scale. I have pointed out that since the war began we have loaned direct to foreign governments something over \$200,000,000. Yet this is comparatively a small sum. Shall we become lenders upon a really stupendous scale to these foreign



governments? Shall we become lenders for the development of private or semi-public enterprises in South America and other parts of the world, which up to date have been commercially financed by Great Britain, France and Germany? If the war continues long enough to encourage us to take such a position, and if we have the resources to grapple with it, then inevitably we shall become a creditor instead of a debtor nation, and such a development, sooner or later, would certainly tend to bring about the dollar, instead of the pound sterling, as the international basis of exchange.

These thoughts I have thrown out simply in the way of inquiry and suggestion. No one can make a safe prediction and it is idle to attempt to do so. There are so many cross-currents, so many hidden factors involved, that have a bearing on international trade and international finance, that no one can gauge the future. We are witnessing extraordinary developments on the other side of the water; we are seeing government control of industry being undertaken on a gigantic scale. Will such control continue in part or in whole after the war? Will the value of the coöperative effort which is now being demonstrated, be so great as to demand continuance after the war is over? Shall we see in these belligerent countries, after the storm is ended, renewed energy and fresh organization, or shall we see languor and prostration?

Here in America shall our manufacturers and merchants be able to take effective steps, with the active coöperation of the government for the development of foreign business? Will American producers be able to arrange for coöperation among their organizations for foreign sales so as to effect economies in capturing foreign markets? Today our laws do not allow them. Will it be possible to bring about such a change in our shipping laws as to permit the establishment of an American mercantile marine so that Americans, and not foreigners, will reap the benefit of all our enormous trans-oceanic carrying charges? Will our diplomacy be both helpful and courageous? Will our merchants be wise enough in catering to foreign markets, to build always for the long future and to exhibit the best there is in salesmanship, quality and general disposition to please? I believe so. But these are all questions that, like the others I have enumerated, time only can solve.

We must remember, too, that when we talk about this enormous trade balance in our favor, which as I have said may run up

this year to one billion dollars, a considerable part of that balance is due to falling off of imports, rather than simply to an increase of exports; and another part of it is due to the fact that we are securing much higher prices than normal for a great many different commodities, wheat, for instance, selling at almost double the price per bushel that it commanded a year ago. Therefore, we must not look upon this year's heavy balance in our favor as a normal one. It is abnormal because of the two factors that I have just mentioned. In our calculations we must be conservative and bear these most important facts in mind.

In all these questions that we have been considering and that will in the coming months press upon us for solution, Finance must naturally play an active part. Some people fail to realize that finance and general business are so interwoven that the success of manufacture and trade depends entirely upon the coöperation of finance. Finance is not isolated, does not work by itself. Finance is not speculation. It is rather a gigantic fabric, delicately and yet strongly built, patiently constructed through many generations of sound dealing. It is the business of finance to provide the means for the development of mines, our manufacture, our commerce, and even, in some measure, of our agriculture.

For the development of all these industries capital is required in large and increasing measure. On the other hand capital is constantly seeking investment. The frugal are laying by for a rainy day, large estates must reinvest their surplus incomes. It is the important function of finance to bring these two movements together to see that these savings are turned into the form of sound investment for the development of the country's industries. For this reason the conditions of finance are of world-wide importance. In this country they affect every investor who helps to keep industry supplied with funds for development, and every wage-earner who is dependent for continued and contented employment upon the success of such industries.

And furthermore we must remember that Finance is an orderly process, never haphazard, never casual. As we look back we can now realize that those great remedial and protective steps that I have briefly alluded to, the raising here of \$200,000,000 of gold, taken by a few gentlemen quietly and without legislative action,

were all parts of the great engine of finance working steadily through the industries of the country.

One last word, at the end of it all—how shall finance have fared? Am I too fervid when I say this:

When that terrible, blood-red fog of war burns away we shall see finance still standing firm. We shall see the spectacle of the business man of all nations paying to one another their just debts. We shall see the German merchant keeping his word sacred to the English; and the French to the Turk. We shall see finance standing ready to develop new enterprises; to find money to till new fields; to help rebuild a broken and wreck-strewn world; to set the fires of industry blazing brightly again and lighting up the earth with the triumphs of peace.

## THE RESULTS OF THE EUROPEAN WAR ON AMERICA'S FINANCIAL POSITION

BY W. P. G. HARDING,

Federal Reserve Board, Washington, D. C.

We hear a good deal nowadays about dollar exchange as applied to the financing of transactions arising from our trade with foreign countries. A year ago this was almost an unknown expression, and, generally speaking, long bills drawn against international transactions were in sterling, in reichsmarks or in francs. Our great incorporated chartered banking institutions were not permitted to engage in the acceptance business, and when a cargo of grain or cotton left an American port for Liverpool, drafts against the shipment were drawn in sterling, or when a vessel laden with dyestuffs or jute bagging cleared from Bremen or Hamburg for Boston or Savannah, credits covering the invoices were expressed in reichsmarks, so that the foreign banker exacted his toll in both directions. In April, 1914, however, the New York legislature, by statute, permitted banks incorporated by that state to accept drafts and bills of exchange drawn against not only shipments of goods to and from foreign countries, but against domestic transactions as well. The federal reserve act, which was enacted by Congress in December, 1913, contained a clause permitting national banks, in transactions involving the importation or exportation of goods, to accept for amounts not exceeding 50 per cent of their capital and surplus; and by a recent amendment, this limitation has been extended to the full amount of capital and surplus. Figures recently compiled show that trust companies in New York State and the national banks have outstanding \$117,000,000 of acceptances.

The development of the American acceptance business has undoubtedly been promoted by the European war, and the progress already made by a large New York City national bank toward establishing foreign branches under the provisions of the federal reserve act indicates a disposition on the part of the national banks to supplement the efforts of the trust companies that have already

established foreign branches and engage in financial operations of an international character. The most inviting field for foreign branches at present seems to lie in the West Indies, in the Canal Zone and in the South American countries. The recent conference with South American financiers held in Washington is an evidence of the interest that our government is taking in the development of closer trade and banking relations with our South American neighbors. While we have for years been large purchasers of South American commodities, such as coffee, rubber, nitrate and hides, our exports to those countries have been negligible as compared with the trade controlled by European nations. The deplorable conditions now existing throughout Europe have not only given us an opportunity of taking over a substantial part of this business, but have almost compelled us to arrange to do so, besides opening the way for an extension of our trade with Europe and with the Orient.

Shortly after the outbreak of the war last summer, international balances against us on current account were ascertained to be around \$450,000,000, and it was estimated at the same time that the total value of American securities held abroad was probably not less than \$6,000,000,000. Notwithstanding the serious depression in cotton, which fortunately proved temporary, the loss in that staple was more than made up in the total volume of our trade by the high prices received for our exports of foodstuffs. The balance against us was in a few months entirely wiped out, and large balances in our favor began to accumulate. Certain lines of industry in this country, such as the manufacture of munitions of war and accessories, have received a tremendous impetus. Reports to the department of commerce indicate, according to a statement made by Secretary Redfield, total exports for the current fiscal year of two and three quarter billion dollars, with a resulting trade balance in our favor of about one and a quarter billions. This balance, however, is due to our smaller volume of imports, rather than to increased exports. For the past nine months our excess of exports over imports has amounted to \$719,000,000, and it is thought possible that our net trade balance for the calendar year 1915 may be as high as \$2,000,000,000, or about four times what might have been expected under normal conditions. As against this all the belligerent powers have been obliged to float temporary loans for enormous sums, to which there is reason to believe substantial subscriptions

have been made in this country, and should the war continue for several months longer, it is thought that American subscriptions will undoubtedly assume far greater proportions. The removal of stock exchange restrictions and the notable rise in the market value of standard stocks and bonds which has been in evidence for some weeks past, together with the breadth of the market, have given foreigners an excellent opportunity to dispose of their American securities, and while there may have been some purchases for European account, it seems certain that sales by foreigners have greatly exceeded their purchases; some authorities contending that since the beginning of the war, net sales have been made in our market for foreign account of about 2,000,000 shares of stock and possibly \$300,000,000 of bonds; these figures, however, are probably exaggerated.

Europe has been selling our stocks and bonds steadily but only in relatively small amounts. It was carefully estimated a month ago that European sales were averaging about \$1,000,000 a day. It is believed that the temptation of rapidly risen prices has led to somewhat heavier selling than within the last week, but even if the European liquidation averaged steadily \$2,000,000 a day it would fall far short of the current excess of exports, which for the last three months has averaged about \$5,000,000 a day. The invisible balance against us is as undetermined as the amount of Europe's holdings of our securities, but it can hardly be \$2,000,000 a day and may be less than \$1,000,000. If it were \$2,000,000 and Europe was selling us each day that amount of securities, we would still be accumulating net credits at the rate of \$1,000,000 a day through our excess of exports over imports.

It is, of course, impossible to predict the duration of the war or its ultimate results, but there are several elements that will enter into our financial position at the close of the war. One is the duration of war, and another is the terms of peace. Should the war be brought to a close in the near future on the basis of a "draw," the demands upon capital would, of course, be much less than would be the case if it is fought to a finish. In that event, our position would be somewhat different should war settlements be made by cession of territory only, than it would be should large cash indemnities be imposed by the victors upon the vanquished, which would involve complicated readjustments of capital. Some authorities hold that the European countries have much greater wealth than is generally supposed, and that their recuperative powers are correspondingly greater, but it seems clear that no nation can withstand for a very

long period of time the tremendous loss of life and property which has characterized the present conflict. The first effects of a peace that follow a great war are by no means a sure indication of what the ultimate results will be, and sometimes it happens that the financial status of nations that have not been engaged in the war is disturbed almost as seriously as that of the participants. When the long series of Napoleonic wars had been brought to a close in 1814 by the exile of the French emperor to Elba, there was a pronounced trade revival in England which came to a sudden halt upon Napoleon's return to France in March, 1815. His final defeat at Waterloo resulted in a great advance in British Consols, but the United Kingdom entered at the same time into a period of industrial and commercial depression which lasted several years. A similar depression was also experienced in this country, which had, since 1812, been engaged in a war with England. Our Civil War witnessed a destruction of life and property and an accumulation of debt somewhat parallel to that now being experienced by European belligerents, and it was also accompanied by a marked inflation of the currency, under the stimulus of which the dominant section experienced a trade revival accompanied by an era of railroad building which continued until 1873. Our Civil War was the source of serious inconvenience to Great Britain, which country was dependent upon the South for the greater part of its cotton supply, yet England was prosperous during the time of our conflict and during the year succeeding its close, so that not until the crash which followed the failure in 1866 of the London firm of Overend, Gurney & Co., did she face the greatest crisis she had experienced in two generations. The war indemnity imposed upon France by Germany in 1871 of 5,000,000,000 francs, made it necessary for French investors desiring to subscribe to the indemnity loan to become heavy sellers of securities in London and elsewhere. British markets, as well as French, were seriously affected, so that within a few months it became impossible to sell American securities abroad, maturing loans were called, and many great railroad enterprises were halted during their construction. Thus the indemnity to Germany was a powerful contributing cause to the great crisis of 1873. Our affair with Spain in 1898, is, according to modern standards, hardly worthy of being dignified with the name of war. It, however, marked the termination of the years of depression which

followed the panic of 1893, and at its conclusion began one of the greatest expansive periods of modern history, which, suffering no serious interruption either from the Boer war or from Russia's war with Japan, came to a sudden end in the fall of 1907.

We should not forget that, although we have passed through no periods of pronounced activity since 1907, there is a strong temptation today towards inflation in this country as well as in Europe, where inflation is a result of war financing. The loans of our national banks were on March 4, according to reports to the comptroller of the currency, about \$142,000,000 greater than they were on the same date in 1914, which were in turn greater by about \$232,000,000 than appeared in corresponding statement in 1913. Restoration of peace will necessarily bring about many readjustments. Demand for war material will cease, and in its place will spring up a demand for the commodities of ordinary trade, and particularly for those materials used in constructive work and repairs. Great Britain, Germany and France will use every effort to recover lost trade and will endeavor to avail themselves of American markets, our margin of exports over imports will shrink, and as war debts are permanently funded, securities will doubtless be sold by citizens of countries lately at war to enable them to subscribe to their national loans. The volume of these sales will be governed partly by security prices and by trade balances, and the effect upon our money market will depend upon the provision we have made in advance to offset or to finance these purchases.

While we have now in operation a sound currency and banking system, we must not permit ourselves to be lulled into a false sense of immunity from all trouble, or to feel that we have a license to disregard well-established principles. We must be discreet, we must resist any tendency toward inflation, and we may be sure, that by avoiding a wild temporary boom which would certainly result in a collapse later on, this country will be in a far better position to reap throughout a long series of years to come the benefits which should accrue to it as the only great world power not engaged in the war. By adhering to this course, by exercising patience and self-control and by adopting a policy of wise statesmanship in husbanding our resources and applying them only in directions which will tend towards bringing the best ultimate results, not to the individual but to the nation as a whole, our position upon the reestablishment



of peace will be far stronger than it was before the war began. We shall be able thereby to hold and to follow up advantages gained, and shall reach ultimately not merely a second or third but a prominent and commanding place in the field of international finance.

## AMERICA'S FINANCIAL POSITION AS AFFECTED BY THE WAR

BY ALEXANDER J. HEMPHILL,

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The two weeks' period between July 24 and August 7 of 1914 marked the creation of a new epoch in international finance, especially for the United States. During the first week in this period, extraordinary fluctuations in exchange indicated that some portentous event was impending and the second week, after the happening of the event, marked the dislocation, if not the destruction, of the entire financial machine. Ruin seemed to be the inevitable result of the great catastrophe, but its very immensity served to bring about a unity of purpose to restore order from chaos and to re-create the necessary mechanism for the restoration of international transactions. These efforts involved a series of unprecedented remedial methods: the closing of exchanges; the resort to clearing house certificates for settlement of balances between the banks, involving the cessation of payments in gold; the issue of emergency currency; the creation of a gold fund, and of a fund to carry the surplus of a record cotton crop. These are recited merely to illustrate the tremendous difficulties which confronted the bankers of the country and the hard work necessary to restore a semblance of normal conditions. Fortunately, there was a ready public recognition of the necessity for such measures and the runs on banking institutions usual at such times were averted.

For some time prior to the declaration of war, our indebtedness on current account to the European financial centers had been steadily growing so that on August 1 that debt had assumed the very substantial proportions of somewhere between \$250,000,000 and \$400,000,000. In the attempt to avert gold shipments, exchange rates soared to unprecedented figures, transactions taking place at the rate of \$6.50 for sterling exchange, and remaining at \$5.00 for a protracted period. Of course, it was essential in order that the credit of the United States might not be seriously prejudiced, that this discount on American exchange should be

reduced. The bankers of the country, therefore, consented to make contributions to a gold pool of \$100,000,000 and this, in connection with the beginning of a favorable trade balance, shortly restored exchange equilibrium.

For several years prior to 1914 our financial position left much to be desired. Securities were discredited, and at an unfavorable time we were compelled to absorb liquidation by foreign investors which, under the circumstances, entailed great depreciation in the market value of all issues. We had for so many years depended upon the savings of other countries, particularly Great Britain, to finance a part of our undertakings, that we were some time in realizing that we must henceforth depend upon our own financial resources. This forced a period of economy, which was evidenced in the enormous growth of our bank deposits.

Steps taken by the warring nations to protect their gold reserves offered an opportunity to this country to secure a leading position in the world of finance. Fortunately for us, it so happened that the organization of the federal reserve system had just been completed, conferring powers for purchasing bank acceptances and rediscounting, with consequent currency issuing. This for the first time rendered possible the creation of dollar exchange. The abnormal situation in Europe made this step so logical that it met with ready acceptance from all quarters. Bills which had heretofore been drawn on London in sterling were now beginning to be drawn on New York in dollars. This particularly applied to the Latin American republics; commercial transactions with those countries, which under customs prevailing before the war had been settled through London, are now cleared through New York.

The war forced the return to this country of thousands of Americans traveling abroad and a consequent saving for this country of immense sums which were currently spent on the other side. Imports of merchandise showed an enormous shrinkage and as we almost immediately began to supply the necessities of the warring countries in the way of foodstuffs, etc., our exports reached large proportions. The balance of trade in our favor enabled us, therefore, soon to pay off our debit balance, and a large credit balance took its place. To the extent to which foreign holders of our securities were willing to sell we have repurchased from them, but this liquidation since the war although of considerable volume is but a

comparatively small percentage of their total holdings. The balance of their current indebtedness to us must be discharged in other ways. We have in some cases purchased their short-time obligations and in others granted credits. We are not yet prepared to take their long-time obligations. That time will arrive after the declaration of peace.

The reversal in our financial position has been so sudden and complete that it really has been little less than revolutionary. Most of our financiers have had little experience or training in international finance to meet the conditions involved in this sudden change. In addition to this lack of experience we had to cope with defective financial machinery. It was not until the national monetary commission published the result of its investigations of European methods that this country began clearly to see how necessary it was that we should depart from our archaic methods and adopt a banking system which would enable the creation of an acceptance and discount market. These views and findings of the commission were wisely incorporated in the federal reserve law and comprise the chief measure of benefit that the country now derives from that act. State institutions have availed of this new feature in granting acceptances to a larger extent than the national banks.

London has not yet drawn any bills of exchange in dollars. When that is once done we may pride ourselves upon our progress. London financiers recognize our new efforts in the field of finance and applaud our aspirations. No obstacles from that quarter will be interposed. At the present time she is concentrating all her efforts on the one object of financing the war. Nevertheless we must recognize that she will maintain as strong a grip as possible upon the markets which she previously controlled, and our credit will be only temporary unless we make our dollar exchange stable and desirable.

It is essential that our manufacturers who desire to export their products should develop an efficient export organization. To this end they must study the markets which they desire to supply and be prepared to take the financial responsibility involved in the granting of credits and not leave this important feature to agencies. In the final analysis the manufacturer exporter must take the risks of export business rather than the banker. Our

manufacturers desiring to export must understand that they must use the same intelligence in meeting foreign markets as they do in taking care of their domestic business. The clearing of all this business should, in the main, be done through New York.

The conclusion of the war will create new conditions and the greatest demand will then be made upon financial America. The destruction and wastage of capital occasioned by the war has been estimated on the basis of a year's duration at \$40,000,000,000; and while it may not be necessary to restore all of this at once, yet from present indications the demand on us will be enormous. First, there will be the call on our merchants to furnish materials in connection with the rehabilitation or rebuilding of the devastated country and, secondly, we will have to give credit either through making direct loans or through the repurchase of American securities held abroad. From present indications the foreign investors will part from our securities slowly and will be tempted to liquidate only at high prices. It is more than probable that several of the foreign countries will ask us for some of our gold in order that they may restore or build up their gold reserves. These demands upon our financial resources seem to presage more than an active and firm money market.

There is no doubt that should we continue to practice economies and follow the sound business methods which we have recently pursued, we will not only have abundant resources for our own prosperous business but also be able to take care of the reasonable demands of other nations.

## THE FINANCIAL MENACE TO AMERICA OF THE EUROPEAN WAR

BY SIMON N. PATTEN, PH.D.,

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In a national crisis there is difficulty in applying old principles to new situations. It is often said that there is nothing new, every situation being the repetition of antecedent experience. It is equally valid to assert that new conditions demand a restatement of old laws; only through such reconstruction can they be applied to current events.

An attempt to apply the economic theories to the present situation shows a confusion that exists, not so much on account of the fallacy of principles as on account of the particular way in which they have been stated. The data on which they depend have not been worked over, and as a consequence the theories have remained rather as statements of particular forms of experience than as its general statement. This is especially true of the economic doctrines that arose in the last century, since their essence is distributive. Their goal is some rule by which the produce of society can be divided among the various producers. The real question today is how much of the national wealth can be taken from producers and given to the state. The present situation in Europe is described by saying that, in the past, 10 per cent of the annual income of each country has been turned over to the state, while under the new conditions 40 per cent of the annual income must be given to meet the increase of public expense the war involves. How far this can be done and in what ways without interfering with the processes of production is the vital issue. We have thus to do with the total income of the nation, not that of some class or industrial group; only the most material wants are to be kept in mind.

If 90 per cent of the total revenue of England in the year 1913 was devoted to the private uses of its citizens, how can they adjust themselves in 1915 so that 40 per cent of the total income of the nation can be turned over to public uses? If this much is demanded of England, still more is demanded of the people of France or Ger-

many, if they are to meet the situation imposed on them by the European conflict. If this view is taken, certain fundamental relations between people and environment must be maintained to carry on a long struggle under conditions where the resources of the nation go to public needs rather than to private uses.

The first of these is the relation between food and population. Deductions in this field are known as the law of diminishing returns. It is not necessary to discuss the implications from this law as all nations are conserving their food supply and endeavoring to increase it by every means in their power. The relation between capital and industry may occasion more difficulty. Here we find the law of economic cycles, as it has been called by Professor Moore, to whom its best statement is due.<sup>1</sup> Fluctuations in industry are primarily alterations in the annual production of commodities. A series of good years cause also increasing industry and rising industrial values, while a series of bad years result in depression and disaster. Such cycles have come in the past with great regularity, and they show us the danger to industry from any diminution in the total of the food of the community. The importance of this law is, however, not so much in any anticipated diminution of the food supply, but rather that it throws light on what will happen in a community where there is a large decrease in the quantity of capital.

In the past, changes in values have come from fluctuations in the amount of crops. There has never been a material decrease in the quantity of capital, and usually there has been from year to year a decided increase. Now for the first time we face an actual decrease in quantity of capital. How are we to measure its effects on values and on industry? The reply is that its effects will be similar to the effects coming from a diminution in the annual yield of the farms. A poor crop is as much a destruction of wealth as if the crop were produced and then destroyed. If this is true, other types of destruction will have the same general effect on industry.

If we look to the relation of food and population for the basis of our static relations and to the relation of capital to industry for our fluctuating changes, we should measure the progressive changes in society through the relation between the present and the future of which the rate of interest is the best expression. One group of economists assert that interest depends upon productivity, and

<sup>1</sup> *Economic Cycles: Their Law and Cause.*

therefore rises and falls as productivity increases or decreases. Other economists affirm with equal earnestness the theory that the rate of interest depends upon the estimate individuals make of their future welfare. Are we to look upon these two laws as opposing tendencies or as reflecting different conditions under which the rate of interest manifests itself? To my mind, they represent two elements whose combined influence determines the rate of interest. People cut down their present consumption in favor of future consumption, through the fear of future want. Any new conditions diminishing the fear of future want will check the tendency to save and cause an increase of present consumption. The diminution of fear means a rising rate of interest. On the other hand, whatever reduces the risks of industry tends to create a lower rate of interest. Industrial progress is thus from a state where fears are static while risks were diminishing to a condition in which fears are diminishing and risks are static.

Let me explain this formidable but after all simple proposition. For a long time the social conditions under which industrial people lived remained the same, their anticipation of future dangers were correspondingly fixed, and hence the same motive from generation to generation existed to set aside a part of their income to provide for future contingencies. Two generations ago it could be said that if the family income was increased from \$1,000 to \$1,200, the \$200 additional would, in nine cases out of ten, be turned into capital. During this time, however, the risks of industry were diminishing, and as a consequence, the element of danger was reduced. The net result is a falling rate of interest. At the present time, however, risks have come so near their minimum that they are a static element. People think less of tomorrow than their forebears did. There is an increase in present expenditures by those whose forefathers would have saved.

In general terms, we can say that an increasing product raises the consumers' margin and creates a rising rate of interest. The rate of interest is an index of the progressive changes taking place just as is the law of diminishing returns of our static relations. We thus have a law of static change, a law of fluctuating change, and a law of progressive change. These three laws I shall attempt to apply in determining the danger that American industry fares as a consequence of the present war.



The first question to decide is whether industry has been so disarranged that its returns have diminished. During the Napoleonic wars, England was undergoing a tremendous industrial revolution that increased her productive power from 50 to 200 per cent. The result was that after the twenty years' struggle England found herself richer than before. The expenses of the war had reduced the profits of the nation, but had not destroyed them. The same result followed our Civil War. New inventions in agricultural machinery were introduced to such an extent that the diminishing labor supply caused by the enlistments was more than made up by the increase in the power of machinery. As a result, the North found itself wealthier at the end of the war and the rate of profit was also larger than at the beginning. These two examples are often used in a confusing way because they seem to show that war brings prosperity, when in reality they only show that war is a burden a nation can stand if the increase in productive power is sufficiently great. At the present time, with no great industrial improvements in sight, it seems wiser to assume that the burden of the war will rest upon the nations who have taken part in the struggle. How will this burden be distributed, and upon whose shoulders will it fall? In answering these two problems we are likely to be confused. When we discuss the effect of the war on securities we should have in mind, not the ultimate value of these securities twenty or thirty years from now, but what will be their immediate value at the close of the war. After every period of food shortage there has been a depression in industry and in security values. We can infer from this what will follow in the present case for the destruction of war illustrates the same causes as a shortage of food. If bad crops create depression, we have a right to infer that a like depression will follow the destruction caused by war. Professor Moore's conclusions are that the depression in industry lags four years behind the shortage in agricultural crops, and if this holds in the present case, we can infer that the burden of the war will be settled by an industrial depression in the near future.

This inference is justified by what we know of the relation of wealth to value. An increasing product causes a still greater increase in value, while a diminishing product has a powerful effect in lowering values. It is hard to express this relation in simple mathematical terms, but it is an understatement of the facts to say that

a reduction in product produces a double effect in value, and therefore a reduction of 10 per cent in produce may produce 20 per cent in reduction in industrial values.

It is universally admitted that the cost of the war for one year is about \$15,000,000,000 to the nations concerned. If we take into consideration the losses of private property in Belgium, Poland, France, and other places actually within the war zone, and the disturbance of industry in other regions, a like destruction of \$15,000,000,000 has resulted. We thus have an actual destruction of property to the amount of \$30,000,000,000, and if the loss in value is double the loss of product, we must assume that at the end of the year the value of the world's capital has been reduced by \$60,000,000,000. As the world's total wealth foots up to something like \$300,000,000,000, this means that at the end of the year there has been a loss of 20 per cent in values if the distribution of these losses were equal. That, however, is not likely to be the case. What usually happens under such circumstances is, not an even fall in values and an even burden upon all industry, but rather a commercial crisis in which the losses are unequally distributed, and thus greatly increased. If the war continues more than a year, the losses will be enormously increased and the difficulties of readjustment correspondingly great. I do not, however, from this, wish to infer that the total value of the world's wealth will be permanently decreased. No matter how destructive the war is, none of the permanent resources of the world will be disturbed, and sooner or later the liquidation of the losses will take place and then the recreation of values will follow, giving a higher total value than before. Such, at least, has been the result of all the financial crises in the past. It is risky, therefore, at the present time to hold securities no matter how safe they appear to be because they will be seriously affected by the industrial collapse that is bound to follow the closing of the war. The risk in regard to bonds and the effect that the war will have on them is different because the bond market is determined, not so much by the fluctuation in the relation of wealth to value nor by the current rate of profit in the community, as by the rate of interest. A high rate of interest results in a relatively low value of bonds and securities, while a low rate of interest correspondingly raises the value of stocks and bonds. We must determine whether the rate of interest is changing in a way that will

affect the value of bonds. If the American people have to a considerable degree stopped saving, a rise in the rate of interest must take place in order to counteract the growing tendencies toward immediate consumption.

In the past, we have had three classes of savers. The laboring population has its saving measured by the amount in savings banks. There is no reason to assume that they will fall off in the immediate future. The same I take it to be true of the large saver—a man whose income is above \$5,000. If the savings of the wealthy are decreasing, it is more likely to be the result of increased taxation than any change in their character or motives. There is an eagerness on the part of the public to tax this class, and should it take the form of income or inheritance taxes, the savings of the wealthy will be absorbed, and thus limit the additions to capital that now take place. The most interesting group to study is the middle class, those whose family incomes range from one to five thousand dollars. This class has practically ceased to save except as it affects life insurance and the education of their children. They are even ceasing to own their homes. The tendency at the present time is to rent an apartment rather than to live in a house. The eager desire for consumption produces a pressure upon their incomes that causes them to expend all they earn.

These changes may take a generation to work but in the end the normal rate of interest will rise from 4 to 6 per cent. If this prediction proves correct, any person investing in bonds having many years to run will lose 20 per cent of their value when the final payment is made. It is probable that the rate of interest will remain low for a time, but all the more certainly can we predict that a person thinking of his welfare twenty years from now will suffer very serious losses if he buys long term bonds at present rates. The change in values that affects stocks will be immediate but temporary, while the changes in the value of bonds will be slow but permanent.

An illustration will fix these facts more clearly. Take a corporation with an income of \$100,000 a year, \$40,000 of which goes to pay the interest on a million dollars in bonds, while \$60,000 pays dividends on one million in stocks. Both bonds and stocks would be at par if the interest rate were 4 per cent and the average return on investments were 6 per cent. If a rise in the interest rate from

4 to 6 per cent occurs and a corresponding rise in the return on investments increases from 6 to 8 per cent the average profit of industry, the value of the bonds would fall to \$670,000 and that of the stock to \$750,000. This would be the initial loss. When the bonds are refunded on a 6 per cent basis, \$60,000 instead of \$40,000 a year must be paid as interest on the new bonds. This leaves the stockholders a net return of \$40,000 a year which on an 8 per cent basis would give their stock a value of \$500,000. The industrial loss of a 2 per cent rise in the rate of interest can be estimated as follows: bonds 20 per cent; farm values, 30 per cent; stocks, 40 per cent; city real estate, 50 per cent. To offset these losses are the gains from inventions and new industrial processes which, however, everyone must estimate for himself.

This does not fix the real loss America must suffer. It is not the treaty of peace that settles the burden of the war, but the financial adjustment following the crisis which the war creates. The French did not pay the indemnity at the close of the Franco-Prussian War. The ownership of the world's resources was settled by the crisis of 1873 with its destruction of values. The great losses were those of Germany and America and they were thus the real payers of the war expenses.

It should be remembered that at present America is getting nothing but paper credits for the enormous export of food and arms. Imports have fallen off and little gold is imported. The financial crash at the close of the war alone will determine the value of this paper. How much will the farmers gain from selling their wheat for an advance of fifty cents a bushel if at the close of the war their land falls 20 per cent in value? If two billion dollars' worth of securities are returned in exchange for food and war material while the crisis lowers all our stocks and bonds by 20 per cent, we have not only given the food and arms to Europe for nothing but have also paid a bonus. We figure out great profits today, but they are after all only paper promises. Tomorrow the reckoning will come and then the holders of securities will bear the burden. Happy will be the man who has kept gold in his own pocket and has let his confiding neighbor have the glittering gains the stock market offers.

# THE PROBABLE CONDITION OF THE AMERICAN MONEY MARKET AFTER THE WAR IS OVER<sup>1</sup>

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When I promised to prepare a talk on the probable condition of the money market after this great war is over, I was hoping that I might get some light on the subject by making an inquiry into the phenomena incident to the great conflicts of the last hundred years. I regret to say that I have been disappointed.

The historical method of study, so far as I have been able to apply it, does not yield either convincing or illuminating conclusions. The world of today is very different from the world in which the Napoleonic, the Civil and the Franco-Prussian wars were staged and the wars of later date did not call all Europe to arms as the present war has done. Comparison is, therefore, difficult.

## *Difficulty of Forecasting*

The problem contains so many unknown factors that no scientific forecast is possible. We do not know, for instance, how long the war will last, or which side will be victorious, or whether heavy indemnities will be exacted, or whether at the end the nations of the earth will lessen or increase their outlays for the maintenance and equipment of navies and armies. Furthermore, we are uncertain as to the increase in the world's stock of gold, available for use as money during the next few years. All these matters, nevertheless, possess real significance in relation to our money market.

I shall assume that the war will be over in six months from date, and that its total cost measured in our money will be at least twenty billion dollars. In this estimate I include the extraordinary expenditures which several neutral nations, such as Italy, Switzerland and Holland, have been forced to make by what has seemed to them a most threatening emergency. I assume also that at least seventy-five per cent of this vast sum will have been raised

<sup>1</sup>Published also by the Alexander Hamilton Institute.

by the sale of bonds and by a corresponding increase in the funded indebtedness of Japan and Europe.

### *Decrease in World's Savings*

A Belgian statistician estimates that the people of the earth save about four billion dollars a year for investment purposes. The higher interest rate now paid for capital is doubtless tempting many people to economize and increase their savings; but any such increment will probably be more than offset by the world's lessened productive capacity. Not only are many millions of able-bodied men engaged in destroying property and life, but many other millions are out of employment in all countries because there is no market for the goods they produce. Hence we are forced to the conclusion that not only is the current addition to the world's supply of loanable investment capital inadequate to finance the present war, but that the current saving is less than normal.

### *Effect on Bond Prices*

We must conclude, further, that the price which warring nations must pay for capital will continue to rise throughout the war; and it is even conceivable that, if the war should last another year instead of merely six months, the interest yield demanded might become so high and the prices of government bonds so low that investors would get exceedingly nervous about the prospects of repudiation, and decline to turn over their savings to some, if not to all, the nations at war. What might be the possible effect upon our market if the finish of the war were brought about as the result of such financial exhaustion is a question which I do not care to contemplate at present.

In any statistical inquiry to arrive at the influence which all expenditures have upon prices of bonds and the rate of interest, it is necessary to take into account the effect which is more or less constantly exerted by an appreciation or depreciation of the monetary standard. In a period of rising prices such as the world has experienced since 1897 the general tendency of bond prices, other things being equal, is toward lower levels; while in a period of falling prices, such as we passed through after the Civil War, bonds prove a more attractive investment and their prices rise.

*British Consols and Previous Wars*

The Napoleonic wars came to an end during a period of falling prices; and during the next five years, that is from 1815 to 1820, England was ransacking the earth for gold in order to place her monetary standard upon a firm basis. In 1815 British consols ranged in price from 61 to 72. In 1816 they were at a lower level, the range being 53 to 65. In 1817 and 1818 they sold above 80 and never below 60. In 1819 the highest price was 79 and the lowest 64. In 1820 they fluctuated between 65 and 70. These figures possess little significance for us, nor does the fact that their level is above the average of the quotations for the last ten years of the war, for a century ago corporation bonds were an almost negligible factor in the investment market; so that government bonds were not in competition with a large mass of other securities, as they are at the present time.

The year 1871 marks the end of a decade during which capital amounting to several billions of dollars was destroyed in wars in Europe and the United States. But it was also a period of gold appreciation, which, in its relation to security prices, tended to offset the destruction of capital in the war and to make for a strong bond market. As a matter of fact, consols were practically stationary for the five years ending with 1874, but lower than they had been in 1867. In the latter year they ranged from 89 to 96, whereas in 1874 the range was from 91 to 93. In 1875 they began to rise; after 1880 they were above par until 1889, when the interest rate was reduced from 3 per cent to 2.75 per cent.

In the decade ending with 1905 a large amount of capital was wasted in war. There was our own war with Spain, costing around a billion dollars. The Russo-Japanese war, lasting eighteen months in 1904 and 1905, is estimated to have cost Japan and Russia each over one billion dollars. It cost England about one billion dollars to subdue the Boer in South Africa in the first two years of this century. All told, it is probable that at least four billion dollars was wasted in war between 1898 and 1905. This was extraordinary expenditure over and above the sums which the nations were already expending in the maintenance of their armaments.

This was a period also of rising prices, as well as of heavy war expenditures, and the bond market, as most of us remember, was steadily weakening. It is not surprising, therefore, that

British consols declined from their high-water mark of 113 in 1898 to between 85 and 91 in 1904, or that their prices have since then been steadily declining.

I think we are justified in assuming that war has been largely responsible for the high investment rate of interest which capital has been able to command in all parts of the world during the last ten years, and it seems inevitable that the tremendous waste of capital now going on in Europe must soon force the rate of interest to such a height that costs of production in general will be increased and the prices of many of the necessities of life be raised.

### *Our Home Demand for Capital*

We must also take into account certain imperative capital needs in our own country. For instance, there are now in existence at least half a billion of railway securities maturing this year. If we include all the railways in the United States, Mexico and Canada, it is a conservative estimate that they must raise within the next five years at least 750 million dollars to take care of their obligations which will mature within that period; and 250 million more will be needed to take care of equipment trust obligations and provide for new capital expenditures. In other words, the railways in this country will need at least one billion of new capital during the next five years. How much will be needed for industrial corporations cannot, of course, be estimated, for their needs will depend upon market conditions which cannot now be foreseen.

It is evident that the real cost of the war cannot be estimated in money or measured by the sums of money which the nations in combat will expend. The war has blocked the wheels of industry in every country on the globe. It has turned back the hands of the clock of our material or industrial civilization. It is making us all poorer because it is making us produce less and at the same time pay more for the satisfaction of our wants.

### *Credit Inflation*

If I knew that peace were in sight and that its terms might be ratified before the next snowfall, I believe I should be justified in predicting that the governments of Europe, in order to help their people recover from the effects of the war and regain their old



standing in the world's markets, would be as ingenious and daring in their use of credit as they have been during the last eight months in their schemes and devices for financing the war. We have seen England issue between two and three hundred million of what we could call greenbacks, a legal tender government currency redeemable in gold by a private institution, the Bank of England; furthermore, England has floated an enormous war loan, and that same bank has agreed to lend against this debt, sovereign for sovereign. Here we have the possibility of a currency and credit inflation that would promise a financial millenium to any of our most ardent advocates of fiat money.

In France we find the same remarkable extension of credit. The Bank of France has increased its note issues over 50 per cent, and cities and towns throughout France have put forth unrestricted issues of paper money. The business of the country, it seems, is done entirely upon credit; the government bank has increased its holdings of gold until they now equal nearly one billion dollars, but it is evidently the policy of the bank to hold the gold of the country as a reserve and to compel the transaction of business with credit instruments.

In Germany we find the same unprecedented use of credit. By the organization of loan banks throughout the empire with the coöperation and assistance of the government and the Reichsbank, the country has been flooded with a mass of paper currency, and every man possessing any kind of property has been able to get bank credit for the support and furtherance of his business or industry.

Never at any time in the world's history have the leading civilized nations of the earth resorted to any such remarkable financial expedients. We simply do not know what the outcome will be; but we do know that there is a chance that the credit of one of these great nations may be stretched to the breaking point, and we know that a collapse of credit in any one of these nations means its defeat in war.

#### *Government Guaranty of Industrial Securities*

It goes without saying that with the advent of peace every possible effort will be made by the people of Europe to vivify their abandoned industries and trade. Of the three factors necessary

to the production of wealth, land alone will be intact and undiminished. There will be a relative decrease in the supply of labor, but this decrease will not be so large or important as many people seem to imagine, thanks to the marvelous developments of modern surgery in the last quarter century. The really deficient factor will be capital. We may leave out of account the factories and workshops that have been destroyed, and assume that a bench or a machine is awaiting every soldier when he lays aside his uniform. Nevertheless industry and trade cannot be resumed on the old scale unless money can be got for the payment of wages and for the purchase of raw materials. I do not believe that this necessary supply of capital can quickly be obtained unless private industrial credit is reinforced by government or national credit. I am disposed, therefore, to predict that the end of the war will be followed by issues of industrial securities backed by the direct or indirect guarantee of a government. Just as our own government assisted in the construction of our Pacific railways, so I expect to see European governments, in the not far distant future, lending their aid to private enterprises.

Whence will come the money that will place Europe industrially and commercially again on her feet? There can be but one answer to this question, for there is only one country with resources and wealth great enough to be of real assistance—and that country is the United States. If Europe is to make quick recovery from the effects of the war, she must borrow capital. That capital will go to Europe not in the form of gold but in the form of foodstuffs and raw materials, and the bulk of them will go from the United States. This means, if I am right, that during the first years of peace our export of goods will be abnormally large, and that we shall sell goods mainly on credit. We shall take in payment not gold, but the guaranteed industrial securities of European nations. These securities will necessarily bear a high rate of interest, for otherwise they will make no appeal to the American investor.

### *Danger To The United States*

If Europe does draw capital from us, what is to become of our own industries? Will our march of industrial progress be halted or can we, in some way that is without precedent, manage to convert bank credit into capital and continue the extension of our railroads

and the enlargement of our industrial plants? Here we are entirely in the realm of conjecture, for we have no idea what will be the temper or attitude of the American people or of the American banker. It is possible, however—nay, I think it even probable—that the close of the war will have a strong psychological effect. The burden of debt, anxiety and uncertainty, which now everywhere restrains enterprise, will be lifted. The business sky will be free from clouds. Once more the world will seem eager to take our surplus products at high prices, and we shall be in danger of overlooking the fact that our best customer, Europe, is buying with borrowed money. We may also overlook the fact that European purchases from us will be abnormally large for not more than two years after the end of the war, and that thereafter her people will practice the severest economies in order to get out of debt. This country will then be exposed to the same peril which destroyed its temporary prosperity in 1818 following the Napoleonic wars—namely, a flood of European imports for sale at ruinous prices. That, of course, would mean panic in the United States.

### *The New Banking System*

I shall close with no such gloomy prospect in view. Fortunately, we now have a banking system upon which we can place some reliance. Its power to protect the business interests of the United States will certainly be tested within two years after the war is ended. Although it is not an ideal system, it is so much better than anything this country has had during the last seventy-five years that I believe we may look to it with confidence, trusting that its managers will keep business men fully warned as to the dangers that threaten them, and will be prompt and powerful in the application of measures of protection and relief.

If our federal reserve banking system had been in full operation at the beginning of last August, with power to mobilize our enormous gold reserve, there would then have been more than an even chance that New York City would have become the world's financial center, and that the American dollar would have elbowed the British sovereign out of its "place in the sun."

Finally, since it is so easy to make predictions when you don't know too much about a subject, let me call your attention to an

interesting possibility, if not probability. I have said that Europeans will come to us after capital. They will get it by the offer to us of new securities and by the resale to us of our own securities. Protests will go up from all quarters of the United States, and I shall not be surprised if societies are organized for the protection of the American dollar against foreign greed. But no tariff or tax barriers will prevent an efflux of capital if the foreigner only bids high enough. So it is quite possible that this war, besides imposing on us an abnormal rate of interest, will also work an unlooked-for miracle and transform the United States from a debtor nation into the world's commanding creditor nation. If this happens it will be an involuntary achievement on our part; and it certainly will not happen at all unless the American people have a change of heart and cultivate the favor and good will of the goddess of sane living, namely, economy.

## THE SITUATION OF THE UNITED STATES AT THE CLOSE OF THE WAR AS A QUESTION OF NATIONAL DEFENSE

BY EDWARD S. MEAD, PH.D.,

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The financial situation of the United States at the close and as a result of the European war can be forecasted with a fair degree of accuracy, and the result of the forecast can be regarded with a degree of satisfaction. Indeed it is difficult to understand the basis of the forebodings expressed in many quarters that the interests of the United States will be in any way injured in the process of world readjustment which must follow the conflict. The probable results of the war upon our principal competitors have been set forth in the various papers read at this and previous sessions with substantial unanimity of opinion. We know that European nations will be burdened with enormous debts, with resulting heavy taxation which must increase the overhead charges of industry. We know that the loss in their working population, and especially in their directing and executive population, has already been severe and continues to increase. We have no reason to expect that the war will settle anything except the endurance of the fighters, so that the crushing burdens of armament will continue to be borne.

We can reasonably expect, moreover, that the conflict, when it finally dies, will leave a legacy of hatred, of jealousy and suspicion, among the warring powers which will, for many years, interfere with the extension and cultivation of friendly commercial relations. That the United States is certain to profit from this situation is evident. While no fighter loves the neutral bystander, at any rate he does not hate him. The American manufacturer will have in future an easier time in competition with his foreign rivals in the markets of their enemies. No matter if the temporary war trade dies with the war, the connections formed can be turned to profitable account in advancing the interests of American export trade.

Apprehensions are expressed that American markets will be flooded with low priced European goods at the end of the war. European manufacturers, with their regular trade disorganized, will be forced to invade on a large scale the markets of the United States. It is not, however, contended that this situation will be permanent. The handicap of a high protective tariff still continues and it is not beyond the bounds of possibility that the handicap may be increased in the near future. Certainly a general European fire sale after the war will furnish a strong argument for at least a temporary advance in duties.

The same answer can be made to the argument that a flood of European laborers will, at the close of the war, endanger the American standard of living and lower American wages. Europe's machinery of protection is substantially untouched. This war, costly to human life, has not been characterized by wholesale devastation and destruction of property. Factories, mills, ships and railroads are intact. Outside of the foreign trade of Germany, industries are being still carried on on a reduced scale. When the war is ended, the millions of men, those that are alive and whole, will return to the places whence they came out. The demand for labor will remain, but the supply, by wounds, disease and death, will be much reduced. Why the European laborer should run away from the opportunity of higher wages and more assured employment here presented to try the doubtful hazards of the new world, even if his governments will let him run away, a most unlikely permission, has not been clearly explained.

So much for the immediate effects of the European war upon this country. We have not been seriously injured by war and the immediate results of peace will not, apparently, work to our disadvantage.

It is not the proximate, but the eventual, situation of the United States which should concern us.

This war is not likely to establish so great a preponderance of international advantage as to make future wars impossible. The machinery, the organization, the habits and instincts, the hatreds, jealousies and envies, the phrases and the songs of war will survive the conflict. Man is by nature, as one philosopher put it, a fighting and quarreling animal. He likes to fight. He likes to watch other men fight. His life, if successful, is a conflict with his competitors;

a conflict which President Wilson and his supporters are doing their best to make permanent by statute and commission. So it always has been, and so, at least in the time of our grandchildren, it is likely to be. Within the confines of each national state, he fights according to rules which keep the struggle within certain decent bounds. But beyond the international boundary line, law ceases. Nations make their rules as they go along. When national advantage indicates the time for war, war is declared without warning, on any pretext, and war is waged without any regard to any rule except the rule of expediency in the light of military advantage.

Observe the present conflict. When we objectify the war, look at it, if we can, unbiased by our own inherited prejudices, and unbiased also by the unconscious though powerful motives of trade advantage, both proximate and remote, which incline us to the allies, can there be any question of who is right, can there be any doubt that the blame is shared by every one of the combatants? Each one entered the war for selfish reasons of national advantage, although publicly, especially when invoking divine blessings upon the respective armies, they claim for themselves the loftiest motives of patriotism; or even beyond these, they assert that the organized and wholesale murdering in which they are engaged is inspired by the pure passion of international brotherhood and sympathy for oppressed peoples. Where is international law? In the face of broken pledges and torn scraps of paper, in the face of the slaughter of civilians, the shelling of unfortified towns, the attempted starvation of great nations, the forced levies upon captured cities, the sinking of neutral vessels; what has become of the laws of war? They do not exist except in times of peace.

And what assurance has the United States that we shall be able, because of the friendliness which the cosmopolitan character of our population disposes us to show to all nations, to keep out of future conflicts? Inevitably the tendencies of our foreign trade, the pressure of capital for investment in the profitable fields of exploitation of Asia, the West Indies, South America, are drawing us into the international field. We have asserted and are prepared to maintain a suzerainty over the countries to the south of us. At present we do not feel sufficient responsibility to make the Mexicans or any other Latin American nation, except Cuba, keep the peace. We allow them to settle their own difficulties in their own way, but

even the most pacific administration in American history would not tolerate meddling in Mexican affairs by European powers.

Of course this policy of responsibility without duty cannot be continued. The commercial, and to a large extent, the financial interests of the United States, are bound up with the orderly development of the countries to the south of us. These territories form, with the United States, an economic unit entirely self sufficient. These Latin American countries have enormous natural resources. They offer an almost untouched field for industrial and commercial exploitation. They are the natural field for American energy and enterprise. It is unreasonable to expect that the policy immortalized by the late Wilkins Micawber will be continued by future administrations; that United States' lives and property will be left unprotected while Mexican mob armies, in the sacred name of liberty, fight each other to determine what set of plunderers shall control the offices and the graft.

For the present, it is true, the tendency is to deny to the investor the right to large profits in the development of his own country, and when he goes into foreign lands with his money, to deny him protection because he did not remain at home. This tendency, however, it is fair to presume, will be changed at an early date.

A vigorous, sustained, consistent foreign policy, carried on without reference to party politics, or the fortunes of statesmen, but with exclusive reference to perceived national advantage is necessary for the future development of the United States. It is necessary to keep the trade we now have, to get more trade, to safeguard our large investments in certain foreign countries, and to make new investments. All this means a vigorous foreign policy.

A vigorous foreign policy will naturally bring us into conflict with the interests of foreign nations. Even more urgent will be their pressing into the foreign trade. Already their trade interests in Asia and Latin America are enormous and these interests will continue to grow. It is altogether likely that our interests, in these undeveloped regions, will clash with theirs. And when the clash comes, if we are found unprepared; if any of our European or Asiatic friends of whom we never speak publicly, save in terms of lofty and affectionate compliment, think that they can wrest from us with impunity any of our possessions, we may be certain, if the gain is



greater than the hazard, that they will make the attempt. The only thing that will restrain them is the size of the hazard, represented by the army and navy of the United States.

And so we come to the conclusion that the financial destiny of the United States, so far as it relates to the foreign trade, is bound up with the question of national defense. No one ever attacks in war. Japan did not attack Russia in 1904. The South did not attack the North during the Civil War. Germany did not attack Belgium and France. Attacking is bad form. The thing to do is to defend, always remembering the military maxim that the best defense is a strong, sudden, unforeseen attack. So we will assume that the United States would never attack anyone, no matter what the provocation, no matter how vital the interests involved. We should, however, defend ourselves if attacked, and at present we are by no means prepared even to protect our shores from invasion, much less to carry the war to our foes.

It is time that the American people—the richest, and at the same time, the most excitable and sensitive people in the world—should realize that they are living in a world of force and should make their preparations accordingly; that they should draw from the Scriptures not merely the mild doctrines of peace, non-resistance and submission to wrong, but should remember that the same Scriptures contain the warning, peculiarly applicable to the United States at the present time, “When a strong man armed keepeth his palace, his goods are in peace, but when a stronger than he shall come upon him, he taketh from him his armour in which he trusted, and divideth the spoil.”

## THE EFFECT OF THE EUROPEAN WAR ON AMERICAN BUSINESS

BY A. B. LEACH,

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The question uppermost in the minds, not only of the bankers but of the business people of this country today is, just how will the European war effect American finance, American business. The subject is so broad and there are so many elements still undetermined that any opinion must be given with great reserve. My thought is that the points best settled today are:

First. For a long term of years Americans will not be able to finance new improvements or developments in the railway or commercial world through funds obtained from Europe. We must finance ourselves.

Second. As affairs become more stable, the rate of investments, at least upon government obligations in Europe, will so nearly approach the investments held from this country, that there will be a continuing return of bonds and stocks now held in Europe. This will result in a partial extinction of the indebtedness of our industries to Europe.

Third. During the continuance of the war and probably for a year or two afterward, all of the countries who have been at war will be practically upon a paper basis. Gold will be principally used for exchange between countries, and as long as this continues, money should remain cheap for short terms and the real pinch will not come until an effort is made to get back to a gold basis.

Fourth. In spite of the best credit facilities, after the war it will be extremely difficult for the European countries to finance their oversea trade for long periods and on such liberal terms as they have done in the past. This should enable American merchants and manufacturers to obtain a very much better hold upon the South American and Far Eastern business. At the close of the war and the return of the men now in the armies, a very large output of manufacturing products will be pushed forward with almost unheard of haste because of the needs of these various

countries to supply goods for export, and I believe that our American manufacturers must face a very strong competition.

Fifth. Out of these different currents of business and trade brought on by the war, I believe that America is practically the only country in this world that will be benefited and I believe that we will be very substantially benefited. We are not equipped perhaps today to assume the first position in business, in trade world-wide, but backed by the enormous home consumption and home trade, I believe that the future for this country is brighter today than it has ever been.

## THE MEANING OF NEUTRALITY

JOHN BASSETT MOORE,<sup>1</sup>

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The subject of American neutrality and the European war is one intimately and vitally connected with the history and policy of the United States. One hundred and twenty-two years ago, or less than five years after the federal constitution was established, the government of the United States was required to make a momentous decision. The wars growing out of the French Revolution were well under way and the circle of conflict had just been rounded out by the entrance of the power which then held and has since continued to hold the world's naval supremacy.

Those who speak in awe-struck whispers of the problems, grave though they be, that confront us today, perhaps are not always acquainted with the appalling uncertainties and awful responsibilities that rested upon the statesmen of an earlier day, who furnished us with the chart and compass by which we have since sailed. Regarding Europe as having a set of primary interests in which the United States, with its geographical and political detachment, had no direct concern, the administration of Washington announced to the world that the United States would pursue a neutral course. The history of American diplomacy during the twenty-two years that followed, down to the close of the Napoleonic wars, is chiefly concerned with the efforts of the United States to perform the duties and maintain the rights appertaining to it as an independent and neutral nation. This period of storm and stress has well been denominated the struggle for neutrality, and in it were formulated the fundamental principles on which the modern system of neutrality is based. In the task of formulation, the chief part was borne by Thomas Jefferson, whose philosophic discernment, keen intelligence, and extended learning enabled him to give to his work a peculiar logical and original character. What we call neutrality

<sup>1</sup> Remarks as presiding officer at the third session of the Nineteenth Annual Meeting of the American Academy of Political and Social Science, held in Philadelphia on April 30 and May 1, 1915.

is a system of conduct regulated, not by the emotions nor by individual conceptions of propriety, but by certain well defined rules, and it is synonymous with impartiality only in the sense that those rules are to be enforced with impartial rigor upon all belligerents.

It is proper to advert to the fact that, during the war that is now going on in Europe, various neutral nations have issued embargoes under which the exportation of various articles is forbidden. These are commonly interpreted, I think erroneously, as "neutrality proclamations." In reality they are essentially regulations of a domestic nature, employed for the purpose of preserving a proper supply of articles, including even arms and munitions of war, in the countries concerned.

## THE NEUTRALITY RULES ADOPTED BY BRAZIL

BY HIS EXCELLENCY, THE BRAZILIAN AMBASSADOR,  
SENHOR DOM DOMICIO DA GAMA.

I crave your indulgence for a brief presentation of the rules adopted to define, secure and maintain the neutrality of Brazil in the present European war. I will not undertake a detailed discussion of them; I only desire to call your attention to them as a contribution towards the maintenance of friendly relations between belligerents and a country not involved in the war. The observance of these rules, which was announced at the beginning of the war, seems to have been approved by the belligerents, and particularly by one of them, which has gone so far as to propose that they be taken as an example elsewhere. But the fact that the rules wisely adopted by Brazil in matters of neutrality could not be followed by others is another proof that international problems have to be treated according to internal conditions, and their solution subordinated to national conveniences. "For geographical reasons" was a rather elegant phrase lately used in the declination of official invitations to coöperate in defensive actions of government. This is a new proof of the fact that, in some cases and particularly in those involving responsibility, governments may feel safer in acting alone than in finding themselves in good company.

I am prepared to admit that reflections such as these may serve to cool the generous enthusiasm of the honest preachers of international solidarity; nor should I wish to appear to be sarcastic as I credit philanthropy with taking the initiative in the improvement of international relations. And I also recognize that optimism is at the basis of every constructive work, and should be an altogether good thing. But we must also know that virtue among nations has not reached such a pitch as to justify the belief in an international society of nations, ruled by the same restraining, virtuous, moral principles that preside over the relations of individuals living in society. We are well acquainted with lessons of history which not only sadden our hearts and darken our minds with the tragedies of ambition, both in individuals and in nations, but which

also teach us that optimism, especially in the sense of undue self-confidence, may hurry us on to grave catastrophes. We are all thinking of the present war—this war, that none of us would like to be responsible for; this, to the cool-minded man, suicidal war, was rendered possible by optimism in that sense. Some good people, honestly believing that they had grievances to redress, felt that all they had to do was to start and strike at those who stood in the way, and that they would get their due for being brave and strong and having confidence in themselves. And they went out and struck and have been striking ever since, but cannot yet say when the fighting will cease, because there are others in the way, equally brave and strong and self-confident. The lesson of this tragic mistake cannot destroy the hope that is immortal in the heart of men, hope for better times when peace will rule the world; but it may warn us against the dangers of miscalculation through optimism and, if some good may arise from so much evil, it will come through fear—which in many respects is the beginning of wisdom—fear that we are not safe, that we are not sufficiently protected by our overestimated and over-trusted civilization.

Rules of neutrality appear as a consequence of the salutary fear of entanglements and complications with other peoples' troubles. These rules are rather precarious, being based on precedents or, more exactly, upon the respect of the belligerents, a respect that may naturally diminish as it comes to conflict with the needs of war. When the rules are violated, protests are promptly made, explanations and excuses follow, for the sake of international good feeling; and the history of violations of neutrality is augmented by another page on which is specially recorded yet another incident connected with the solving by arms of the conflicts between nations.

For this, among other reasons, neutrality suffers a certain disparagement in the minds of plain people, not to say of belligerents. Nor are we neutrals credited with absolute impartiality before the struggle, and, although "the state of neutrality avoids all consideration of the merits of the contest," it cannot go so far as to sincerely "recognize the cause of both parties to the contest as just," unless a man has arrived at that degree of cynicism in which all human ambitions and strifes appear as mere foolishness. From the average man, even from professors of international law, hardly can we

expect such unearthly detachment as to preclude sympathy in the decisions of absolute justice.

There is nothing to prevent us as individuals from making a choice. We are free to have preferences, to take sides, if only morally, in a contest of such magnitude and far-reaching consequences. This is our personal right and almost bounden duty. Where political reasons intervene it is in not showing our preferences, in expressing opinions and sentiments that might carry a moral weight in favor of one of the contending parties; and such a reservedness, amounting to more than usual discretion and propriety in social relations, is not obtainable without much care and a real effort on the part of the governments.

Now, there seems to be no real reciprocity on the part of the belligerents for such a consideration from the neutral. Enemies are sometimes shown courtesies that are omitted with friends that are neutral, and this is perhaps because they are neutral, that is to say, friendly to the other party also. If it is true that the friends of our friends are not always our friends, the friends of our enemies may easily be found to be our enemies; or, at least they cannot be of the best we may have in matter of friends. Oh! it is a poor friendship,—the one which simply reads as the contrary of enmity. It goes by degrees and has restrictions and wears out at the first and lightest friction, as a label of no consequence upon a bottle of doubtful wine.

This is what we imagine belligerents feel about neutrality, if they do not really express themselves so clearly about it. And the mortification of being under suspicion is thus added to the worries and cares of the neutrals in their dealing with the special situation created by an international war; a situation which should prevent nations from armed conflicts, if the memory of past sufferings could appear as vivid in our mind at the critical moment; which at all events could be considerably improved if the interests of the neutrals were properly taken into consideration and their rights clearly defined and respected by belligerents. A movement in this sense was initiated last year by the governments represented at the Pan American Union. A committee of study was appointed, which has been working steadily and has already nearly completed its report, and the nations of our continent, taken by surprise and finding it difficult to legislate in time of war without affecting positions ac-



quired and advantages gained by one or other of the belligerents, prepare themselves to codify the rules of neutrality that may be adopted in common and will in future conflicts serve the interests of peace without interfering with the contest. I am not authorized to speak about this preliminary work, which has still to be submitted to the consideration of our governments, unless it is to say that it was conducted upon the most liberal principles. The Brazilian rules of neutrality given in full in the footnote<sup>1</sup> were among the elements that were considered by the sub-committee in charge of this codification. And from them, because so much has been said about the exportation of arms and ammunitions of war to belligerents, I select two articles which read:

ART. 4th. The exportation of arms and ammunitions of war from Brazil to any port of the belligerent nations under the Brazilian flag, or that of any other nation, is absolutely forbidden.

ART. 5th. The states of the Union and their agents are not permitted to export or to participate in exporting any kind of war material for any of the belligerents, severally or collectively.

These rules are not new. The first of them was promulgated by the Minister of Foreign Affairs of Brazil on April 29, 1896, on the occasion of the war between the United States and Spain. The second is an extension of the first, and affirms the authority of the federal government on an international matter.

Lately a circular dispatch dated February 22 of this year was sent by the Minister of Foreign Affairs to the Brazilian Embassies and Legations, saying that:

According to our law, that follows in this the principles of commercial law common to all civilized nations, the commercial associations established and operating in the country and registered in the Brazilian boards of trade are considered as Brazilian irrespective of the nationality of their individual members. Although this may bring as a consequence a difference between the juridic personality of these societies and that of their members, the Brazilian government will not give its support to the claims made by commercial societies composed of foreign members, against acts of any of the belligerent nations, until and when, having duly examined the facts and carefully considered the circumstances, it will be convinced, not only that the claim is absolutely well founded, but also that it is free from any political objects. It is the aim of the government of Brazil to see by this decision that a juridic principle true and useful in time of peace, may not be diverted from its moral purposes of tutelage and organization so as to cover acts not consistent with the neutrality that Brazil has so rigorously maintained. (Signed) Lauro Müller.

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<sup>1</sup> For General Rules of Neutrality see following pages.

Everything points to the practical wisdom of these rules. They have proved satisfactory so far, but I am not aware of their being put to a test. It was not so long ago when the papers reported that reply of the commander of a British squadron to the captain of the enemy warship, who claimed the right of asylum in neutral waters: "I have to sink you first: diplomacy will settle the matter afterwards." Brazilian diplomacy has not been settling questions of violation of neutrality in our territorial waters.

#### GENERAL RULES OF NEUTRALITY

ART. 1st—National and foreign residents in the United States of Brazil must abstain from any participation in aid of the belligerents or any act that may be deemed hostile to one of the nations at war.

ART. 2nd—The belligerents are not allowed to promote in Brazil the enlistment of their nationals, or of Brazilian citizens, or of subjects of other nations, for service in their forces on land or sea.

ART. 3rd—The government of Brazil does not consent that privateers be armed and equipped in the ports of the Republic.

ART. 4th—The exportation of arms and ammunitions of war from Brazil to any port of the belligerent nations, under the Brazilian flag, or that of any other nation, is absolutely forbidden.

ART. 5th—The states of the Union and their agents are not permitted to export or to participate in exporting any kind of war material for any of the belligerents, severally or collectively.

ART. 6th—A belligerent is not permitted to have a naval base of operations against the enemy at any point in the littoral of Brazil or its territorial waters, not to have in said waters wireless telegraph stations to communicate with belligerent forces in the theatre of the war.

ART. 7th—In case the military operations or the sea-ports of any of the belligerents are situated at less than twelve days from the United States of Brazil, reckoning travel at twenty-three miles an hour, no warship of the other belligerent or belligerents will be allowed to stay in Brazilian ports, harbors or roadsteads longer than twenty-four hours, except in case of ships putting in on account of urgent need.

The case of urgent need justifies the staying of the warship or privateer at the port longer than twenty-four hours;

1. If the repairs needed to render the ship seaworthy cannot be made within that time;

2. In case of serious danger on account of stress of weather;

3. When threatened by some enemy craft cruising off the port of refuge.

These three circumstances will be taken into consideration by the government in granting a delay for the refugee ship.

ART. 8th—If the distance from the Brazilian port, harbor or roadstead of refuge to the next point of the littoral of the enemy is greater than twelve days'

sail, the duration of the stay of the refugee ship or ships of war in the Brazilian waters will be left to the determination of the government, acting according to circumstances.

ART. 9th—Regardless of the distance between the Brazilian ports and the principal field of military operations or between the Brazilian ports and those of one of the belligerent countries, privateers will not be allowed to stay in ports, harbors or territorial waters of Brazil longer than twenty-four hours, except in the three cases mentioned in Art. 7th.

ART. 10th—The rules established by Articles Nos. 7 and 8 for the limitation of the stay of ships in the ports, harbors and territorial waters of Brazil do not apply to ships of war occupied in scientific, religious or philanthropic missions, nor to hospital ships.

ART. 11th—Any act of war, including capture and the exercise of the right of visit, by a belligerent warship in territorial waters of Brazil constitutes a violation of the neutrality and offends the sovereignty of the Republic.

Besides due reparation, the government of the Republic will demand the release by the belligerent government or governments of the vessels captured, with their officers and crew, if such captured vessels are already beyond the jurisdictional water of Brazil and immediate repression of the abuse committed.

ART. 12th—Once war is declared, the federal government will prevent, by all means, the fitting out, equipping and arming of any vessel that may be suspected of intending to go privateering or otherwise engaging in hostilities against one of the belligerents. The government will be equally careful in preventing the sailing from the Brazilian territory of any vessel there adapted to be used as a warship in hostile operations.

ART. 13th—The belligerent warships are allowed to repair their damages in the ports and harbors of Brazil only to the extent of rendering them seaworthy, without in any wise augmenting their military power.

The Brazilian naval authorities will ascertain the nature and extent of the proper repairs, which shall be made as promptly as possible.

ART. 14th—The aforesaid ships may take supplies in Brazilian ports and harbors:

1. To make up their usual stock of food supplies as in time of peace;
2. To take fuel enough to reach their next home port or complete the filling of their coal-bunkers proper.

ART. 15th—The belligerent warships that take fuel in a Brazilian port will not be allowed to renew their supplies in the same or other Brazilian port before three months have elapsed since their next-previous supply.

ART. 16th—Belligerent ships are not allowed to increase their armament, military equipment or crews in the ports, harbors or territorial waters of Brazil. They may claim the services of the national pilots.

ART. 17th—The neutrality of Brazil is not affected by the mere passage through its territorial waters of belligerent warships and their prizes.

ART. 18th—If warships of two belligerents happen to be together in a Brazilian port or harbor, an interval of twenty-four hours shall elapse between the sailing of one of them and the sailing of her enemy, if both are steamers. If the first to sail is a sailing vessel and the next being an enemy is a steamer, three days' ad-

vance will be given to the first belligerent ship. Their time of sailing will be counted from their respective arrivals, exceptions being made for the cases in which a prolongation of stay may be granted. A belligerent ship of war cannot leave a Brazilian port before the departure of a merchant ship under an enemy flag, but must respect the aforesaid provisions concerning the intervals of departure between steamers and sailing vessels.

ART. 19th—If a belligerent warship having received due notice from the competent local authority does not leave the Brazilian port where her stay would be unlawful, the federal government will take the necessary measures to prevent her sailing during the war.

(a) The officer in command of a ship of war flying the flag of a nation having ratified the 13th convention of The Hague, October 17, 1907, or having adhered to it afterwards, is under obligation to facilitate the execution of those measures.

(b) If a commandant of a belligerent ship refuses to comply with the notice received, for some reason nonapplicable, or for lack of adhesion to that and other clauses of said convention of The Hague, the federal government will command the naval and military authorities of the Republic to use force to prevent the violation of Brazilian neutrality.

(c) A belligerent ship being detained in Brazil, her officers and crew shall be detained with her.

(d) The officers and men thus detained may have their quarters in another ship or in some place ashore, to be under the restrictive measures that are advisable, keeping aboard the warship the men necessary to her upkeep. The officers may have their freedom, under written pledge, on their word of honor, not to leave the place assigned to them in Brazilian territory without authorization from the minister of the navy.

ART. 20th—The captures made by a belligerent may only be brought to a Brazilian port in case of unseaworthiness, stress of weather, lack of fuel or food provisions, and also under the conditions provided hereinbelow in Article 21st.

The prize must depart as soon as the cause or causes of her arrival cease. Failing that departure, the Brazilian authority will notify the commander of the prize to leave at once, and, if not obeyed, will take the necessary measures to have the prize released with her officers and crew, and to intern the prize-crew placed on board by the captor.

Any prize entering a Brazilian port or harbor, except under the aforesaid four conditions, will be likewise released.

ART. 21st—Prizes may be admitted that are brought, under convoy or not, to a Brazilian port, to be placed under custody pending the decision of the competent prize-court. The prize may be sent by the local authority to some other Brazilian port. If she is convoyed by a warship, the officers and prize-crew put aboard by the captor may return to the warship. If she sails alone, the prize-crew put aboard by the captor is left at liberty.

ART. 22nd—Belligerent warships that are chased by the enemy, and, avoiding attack, seek refuge in a Brazilian port, will be detained there and disarmed. But they will be allowed to go if their officers in command take the pledge of not engaging themselves in war operations.

ART. 23rd—No prize will be sold in Brazil before the validity of her capture

is recognized by the competent court in the country of the captor. Nor is the captor allowed to dispose in Brazil of the goods in his possession as a result of the capture.

ART. 24th—From the officers in command of naval forces or warships calling at Brazilian ports for repairs, or supplies, a written declaration will be required that they will not capture merchant ships under their adversary's flag, even outside territorial waters of Brazil, if met between 30 degrees Long. W. Greenwich, the parallel of 4 degrees, 30 minutes N. and that of 30 degrees S., when these merchant ships have taken cargo in Brazilian ports or are bringing cargo to the same.

ART. 25th—Belligerents cannot receive in Brazilian ports goods sent directly to them in ships of any nation, since this would mean that the warships did not put in in a case of urgent need, but intended to cruise in these waters. To tolerate such an abuse would amount to allowing Brazilian ports to be used as a base of military operations.

ART. 26th—Belligerent warships admitted into the ports and harbors of Brazil shall remain in the places to them assigned by the local authorities, perfectly quiet and in peace with the other ships, even with the warships of other belligerents.

ART. 27th—The Brazilian military, naval, fiscal and police authorities will exercise the greatest care to prevent the violation of the aforesaid measures in the territorial waters of the Republic.

Department of State for Foreign Relations, Rio de Janeiro, August 4th, 1914.

FREDERICO AFFONSO DE CARVALHO.

DECREE No. 11,141 OF SEPTEMBER 9th, 1914, COMPLETING THE RULES OF NEUTRALITY APPROVED BY DECREE No. 11,037 OF AUGUST 4th, ABROGATES THE LAST PART OF THE 22ND ARTICLE OF THE SAME DECREE

The President of the Republic of the United States of Brazil

Resolves to incorporate into the Decree No. 11,037 of the 4th of August ultimo the following rules:

ART. 1st—No merchant ship will be allowed to sail from a Brazilian port without a previous declaration from the consular agent of her nation, stating the ports of call and destination of said ship, with an assurance that she is employed only on commercial business.

ART. 2nd—In case it will be known, by the length of her voyage or the route of her sailing, that a ship sailing from a Brazilian port went to other ports than those declared in her statement, and she returns to Brazil, she will be detained by the Brazilian naval authorities to be considered as belonging to the fleet of war of her nation and as such submitted to the dispositions of Article 19th of the Decree No. 11,037 of August 4, 1914.

ART. 3rd—Abrogates the last clause of Article 22nd of the rules approved by Decree No. 11,037 of the 4th of August, 1914.

Rio de Janeiro, September 9th, 1914.

HERMES DA FONSECA.

LAURO MÜLLER.

## NEUTRAL RIGHTS AND OBLIGATIONS OF AMERICAN REPUBLICS

BY PAUL FULLER,  
New York City.

The fortunate isolation of our hemisphere from the turmoils and political rivalries of the eastern world has, with a few notable exceptions, hitherto made our neutral obligations easy and our neutral rights safe.

The present war, with its new methods, its novel and destructive enginery, its wide scope, has brought forward with some sharpness the limits of our obligations and the need for defining our rights.

Materials hitherto innocent, and now adapted to warfare, to the manufacture of explosives and asphyxiating gases, to the construction of aeroplanes, have made unexpected additions to contraband; the scale and magnitude of warlike operations have made endurance the vital, rather than an incidental, element in the ultimate outcome, and have brought foodstuffs into the forbidden circle; the aircraft threatens the humane limitation that hitherto kept undefended towns and their non-combatant population safe from bombardment; the submarine, with the floating mine, while subverting the character of blockade and demonstrating the inadequacy of its prior limitations, makes restricted navigability the plea to justify the disregard of neutral flags and of non-combatants, and threatens to convert the restricted right of search and seizure into a right of destruction without warning. The predominance of sea power is met by the converted cruiser roaming the western and eastern oceans in search of unarmed and peaceful ships of commerce, recalling and surpassing the palmiest days of the universally discarded and rejected privateer.

The time is opportune to define and to emphasize the protection due to neutral interests, and it behooves all neutrals to unite in every effort to minimize the dangers and the injuries arising from these changes in modern warfare.

I should be sorry, in pleading for the rights of neutrals, to show

any lack of sympathy with the stress and strain that war brings upon belligerents, or to minimize those perils and that anguish of war which justify offensive and defensive measures, of necessity involving considerable interference with the normal commerce of neutral countries. This recognition, however, must be reconciled with the proper consideration for the industrial and commercial life of those who have no part in the unfortunate conflict, and are not to be held responsible for its inception. And there should be no especial difficulty in establishing rules for the protection of our western hemisphere, hitherto considered so safely distant from the dangers of European wars. The great concern of belligerents, even among many of those of today, has been, as it always should be, to circumscribe the area of any unavoidable conflict. In this design, which has so lamentably failed on the present occasion, belligerents would be greatly aided to their own relief, as well as to the benefit of the world, by the joint coöperation of all neutrals.

It is a satisfaction, in discussing this question before the American Academy of Political and Social Science, to recall the initiative taken by our South American brethren on the same subject at the session of the Pan-American Union in December last (1914). On that occasion the distinguished representative of the Argentine Republic moved the formation of a committee of nine members, which should study the new problems of international law arising from the present war, and submit such suggestions as should seem to be for the common interest. It was noted that the new problems arising were of interest to the whole civilized world; that the methods of warfare now in vogue were such as to threaten grave injury to neutrals; and that a precise definition of those rights, in view of the new contingencies, was urgently called for; to the end that the freedom of commerce should not be infringed upon beyond the limit absolutely requisite for the military operations of the belligerents. The committee was formed, with our own secretary of state as chairman, and the ambassadors of Brazil, Chili and Argentina, and the ministers of Uruguay, Peru, Honduras, Ecuador and Cuba, as members. No more timely a task could be undertaken, I venture to say, under the lead of this Academy than to awaken the widest interest in the propositions there made, and in the forthcoming work of the committee there appointed. It is an opportunity, moreover, in seconding the initiative of our southern

brethren, to thus give them a formal assurance of the coöperation which they may always expect from us in any movement which may testify to our solidarity in all that can help towards good government and towards just and equitable international relations; and at the same time to forward the immediate purpose of defining clearly the limitation of the privileges accorded to belligerents and framing an equally clear definition of the rights of neutrals in war times. We cannot do better than to join hands with our sister republics to the south in helping to establish these new rules, and with them, broader privileges for the neutrality of this hemisphere.

It is not inappropriate to meet the new creation of war zones with the creation of corresponding and more beneficent peace zones.

In 1820 it was one of the hopes of Jefferson that some day there might be established "a meridian of partition through the ocean which separates the two hemispheres, on the hither side of which no European gun shall ever be heard." While so large a hope may still be of distant realization, the suggestion is pertinent and timely today. With the advent of guns carrying their dreadful missiles a distance of twenty miles, the reason for the three-mile limit of olden times has vanished, and the limit itself should be enlarged to meet the new possibilities of the ordnance of today. The large increase of coasting trade, moreover, calls for a much extended and thoroughly safe zone around the two Americas, beyond which no belligerent should venture without incurring the peril of internment; not otherwise can even our distant shores carry on their commerce with absolute freedom.

The liberty of coaling in neutral zones, so liberally accorded to belligerents, defeats its own purpose when the coaling of European vessels is done on the South Pacific. The injunction that sufficient coal may be furnished to a belligerent vessel to enable her to reach her nearest home port, never had in view the possibility of war-vessels from the ports of Europe marauding in the Indian Seas or the Pacific Ocean. The result of this unlooked for activity has been that belligerent vessels have coaled in the ports of South America, obtaining a sufficient provision to bring them to their nearest home port, and, instead of accepting the corollary of such liberal provision and proceeding to their home ports, have utilized as war material the provision of coal so furnished and have continued their belligerent cruising in close vicinity to American shores.



I indicate this simply as one of the points with reference to which the rights of neutrals on our hemisphere require a new and a more protecting definition.

The invitation by the South American republics to take up the study of such a question in a joint conference is a welcome and a not unexpected addition to the friendly service extended to us by the Argentine Republic, Brazil and Chili, in the offer of their mediation to put an end to controversies arising from the unfortunate events in our sister republic of Mexico. And as we welcomed that friendly and pacific suggestion, so it seems to me it would be appropriate that we should act in concert with South America upon this broader and equally beneficent proposal. The proposal is itself comforting as a manifest assurance that the men entrusted with the political destinies of these sister republics do not share in the doubts, too often and, perhaps I may add, too vehemently expressed by publicists upon whose shoulders do not rest the present burden of government. Only such distrust could stand in the way of profitable coöperation between North and South America at this stage. This distrust, I am confident, is not universal, and I am still more confident is quite unfounded. Our coöperation today must tend to dissipate it and correct any misconceptions of our attitude towards our sister republics.

The basis of this distrust is largely a misinterpretation—not to say a distortion—of the policy adopted by this country nearly a century since, and which has become to many a household word—to others a by-word—under the title of the “Monroe Doctrine.” This misinterpretation has not been confined to our South American brothers. A large share of it was born on our own soil, and many Americans have been anxious to avoid joint political action, while the South Americans have dreaded it, as the insidious approach to a control inconsistent with the respect due to independent nationalities.

“Yankee imperialism” is the term applied to the American policy by Mr. Perez Triana, while admitting that from the time of the declaration of President Monroe “Europe has acquired no colonies in America because the United States has prevented it,” and admitting the danger of the present war to be that “no matter which group may win, victorious militarism will impose itself for a long time upon the official policies of the nations”; and conceding

the fact that if European conquerors have not invaded America in the past, and will not in the future, this may be attributed entirely to "the potential power of the United States."

Yet, as early as October, 1808, Jefferson voiced the feeling of this country when he wrote to Governor Claiborne—"We consider the interests of Cuba, Mexico and ours as the same, and that the object of both must be to exclude all European influences from this hemisphere." How truly that represented the feeling of the American people may be attested by what happened to Cuba nearly a century later, and although at no time during that century were we blind to the strategic importance of that island for the protection of the United States against the European influences from which the South American continent has been so long protected, the distinguished Argentine statesman, Senor Saenz-Pena, gives utterance to the same distrust, and both of these gentlemen emphasize the fact that the policy enunciated in Monroe's message was one of self-interest and self-protection for the United States. This need not be questioned, but it remains none the less true that only by securing our own protection could we obtain or retain the power to extend equal protection towards our new-born brethren. Nor can it obscure the fact that, in adopting such a policy, our own interests were happily at one with the higher and nobler cause of political freedom.

The distinguished Peruvian, Garcia Calderon, in a profound study of the Latin democracies, while acknowledging that all the efforts of the new republics could not have prevailed against the aspirations of Europe to establish their supremacy over them, unless the Monroe Doctrine had stood in the way of such conquests and extended its tutelage as a protection; while admitting that the United States had upheld the independence of feeble states, proclaimed the autonomy of the continent, and contributed to conserve the nationalities of Southern America by forbidding the formation of colonies, and defending the republics against reactionary Europe; that South America cannot dispense with the influence and the exuberant wealth of the Anglo-Saxon North—who, he generously concedes, has created an admirable democracy, reconciled equality with liberty, given to all her citizens fair play and equal opportunities, liberated Cuba, and transformed an exhausted island into a prosperous country, installed schools which furnish adequate educa-

tion to the "impressionable and nervous race"—yet insists that the aim was to make a trust of the South American republics; and that to save themselves from "Yankee imperialism," the American democracies would almost accept a German alliance or the aid of Japanese arms; that our patriotism has been transformed into imperialism, and our policy passed from defense—through intervention—to offense, and that the autonomy procured for Cuba at such sacrifice of blood and treasure may well be a treacherous gift—like to the Trojan horse!

Yet, Mr. Calderon, in pleading for a thorough South American union, is forced to concede that the United States have used all their influence to bring it about in the case of the Central American republics.

What can we do to allay these suspicions of our southern brethren?

Surely, to unite with them in pressing for a proper definition of neutral rights on this hemisphere, and a proper limitation of neutral obligations, must have some weight in convincing the doubtful.

Calderon himself admits that contact with Anglo-Saxon civilization may partially renew the South American spirit without infringing upon its originality, or its traditions, or its ideals.

In 1869 William H. Seward wrote:

All that remains now necessary is the establishment of an entire tolerance between the North American states and the South American republics, and the creation of a mutual moral alliance—to the end that all external aggression may be prevented, and that internal peace, law and order, and progress may be secured throughout the whole continent.

Some form of coöperation is essential to the carrying out of a program so beneficial to both North and South America; not necessarily an alliance, but surely an understanding, or, to use the French phrase, an "entente."

We have—not unwillingly—tendered our offices to stand between Latin-American republics and forcible seizure by European powers. Let us now show that these were amicably extended, as from one independent sovereignty to another, by today acting in unison with these same independent sovereignties upon an international subject that concerns us all equally, even though not to the same degree.

An early evidence of our anxiety, not to interfere in any manner with South American autonomy, was the message of President Adams of the 26th of December, 1825, in which, treating of the forthcoming Panama Congress, he suggested an agreement that each of the countries represented should undertake, by its own means, to prevent the establishment of European colonies within its limits; and that the acceptance of this principle should be urged upon the new nations to the south of us, so that this national responsibility should be recognized as an essential corollary of their independence. And again in March, 1826, Mr. Adams declared that whatever agreement should be arrived at should not go beyond the mutual covenant of all to maintain the principle, each upon his own territory.

Surely, this gave no evidence of the desire to impose an undesired hegemony; nor does our patience with the internal struggles of our immediate neighbor to the south, with whose privileges of nationality we are unwilling to interfere, although as Calderon tells us, "there anarchy is paving the way to servitude."

It is small wonder, then, that Carlos Calvo, the great international publicist, who does such honor to Argentina, should have said of the policy of the United States that it was "declaratory of complete American independence," or that Anibal Maurtua, from Peru, should have said, as late as 1901, that the message was "a Pan-American declaration," or that Carlos Arena y Loayza should have said in 1905 that the policy is

linked with our past, and with our present, and gives us the key to the future of these Republics . . . which are called upon to have one and the same spirit, and to work in accord, in edifying friendship, for justice and peace on earth.

Nor should our friends forget, in taxing the policy with total selfishness, that, in the very incipency of their movement of liberation, as early as the 14th of May, 1812, Monroe—then secretary of state—wrote to Alexander Scott—then already established as a United States agent to Venezuela:

Instructions have already been given to their ministers at Paris, St. Petersburg and London, to make known to these courts that the United States take an interest in the independence of the Spanish Provinces.

We are told that the possibility of armed invasion is a thing of the past, and that, in the words of Mr. Maurice Low, "the lust for

land no longer exists." This may be doubted if we consider how recently the Treaty of Berlin proved rather an aid than an obstacle to the absorption of Bosnia and Herzegovina; when we recall the appropriation of Turkish Tripoli, explained by Mr. Ripardi-Mirabelli in the *Belgian Review of International Law* as a necessity for the expansion of Italy's new national life, and the logical outcome of the absolute freedom of states to make war upon another whenever they consider it indispensable for the satisfaction of their primary needs.

That this "lust for land" has not disappeared, but, quite the contrary, is searching for new fields, is the testimony of Dr. Kraus, of Leipzig, who warns us that if Southern America has not yet become the field of fierce rivalry among European nations, it is because of the policy to which the United States has firmly held, to which he adds, that

it would require a conscious effort for the people of a continent whose political sense and feeling are at present influenced by an incessant rivalry for colonial expansion, to conceive that a state may have any other political ideal—that its ambition may not necessarily strive for increase of power by colonial acquisition.

Calderon also tells us that German professors are condemning the Monroe Doctrine and

regard the Yankee thesis merely as a perishable improvisation upon a fragile foundation. The interest of Germany demands that the United States should abandon their tutelage, and that the swarming Germanic legions should invade the southern continent.

But, assuming that Mr. Low's "lust for land" has so far diminished that its satisfaction is not likely to be sought for by deliberate invasion, the old method has been supplanted by the more subtle influence of economic advantages, of commercial and financial penetration. Professor Loria, of Turin, who does not take the advanced (or retrograde) view of Ripardi-Mirabelli, calls our attention to these monetary relations, which he warns us have acquired great importance in our times and may be the cause of seriously undermining the independent sovereignty of smaller states. The non-payment of interest on bonded debts—no matter by what cause payment is delayed—exposes the debtor state to an intervention of the creditor states, which, beginning by the appoint-

ment of a mixed commission, often ends in actual political interference.

The logical application of the policy which would preserve intact democratic sovereignties on this hemisphere, must find some remedy for this twentieth century method of possible political control by European powers. Mr. Poincaré, writing an appreciative preface to Mr. Calderon's keen exposition of the South American situation, expresses particular approval of Calderon's warning against excessive loans. Calderon's warning is against the influence of capital. "Against fiat invasion by any power the tutelage of the United States is a protection," he tells us. But he adds, as already noted, that South America cannot dispense with the "exuberant wealth" of the Anglo-Saxon North, and that "the defense of the South should consist in avoiding the establishment of privileges or monopolies, whether in favor of North Americans or Europeans." Beaumarchais, an unsparing analyst and critic of the American policy, declares that the policy involves the freedom of the former Spanish colonies from the commercial subjection to Europe.

That such an application of the American policy should not interfere with activities "*purely* economic"—to use Dr. Kraus' words—or "*merely* commercial activities"—as Professor Wambaugh phrases it—goes without saying. But the record shows too vividly how difficult it is to restrain within these bounds financial operations which may result in such eventualities as the enthronement of Maximilian in Mexico, or as the loud demands of European cannon for economic redress at the ports of Venezuela and of San Domingo. Even with larger and more prosperous nations within the European boundary, examples of a financial bondage are not wanting. It is notorious that German capital in Italy was so intrenched, so interwoven with her pressing needs, that liberation was indispensable to give Italy a freed hand—a liberation brought about by allied advances which cancelled the indebtedness towards Germany. So that, while it is universally conceded that the policy first expressed in international form by Monroe stood in the way of European occupation of American territory, or the establishment of European governments on this side of the Atlantic, the logical development of that policy and its application to new situations require that this hemisphere shall also be defended against such financial situations as may result in the practical subjection to

European influences, with the danger of armed interference as a result of financial disaster.

That this should still be a live question is largely due to our own lack of appreciation of the opportunities and of the duties which lay before us, due to the natural difficulties of assimilation and to our own apparent unwillingness to bend ourselves to the necessities of the situation and get a better comprehension and a more sympathetic appreciation of the qualities of our southern neighbors. It is this which has permitted the commercial and economic primacy of Europe, as well as its intellectual dominance over the South American continent. Only within the most recent period has the enterprise of an American bank brought Argentine exchange to New York, and not yet is it feasible to make as rapid, or as comfortable, a journey from Buenos Ayres to New York as from Buenos Ayres to London.

This is the new application and logical expansion of the policy enunciated in 1823; and I speak of it as a policy rather than as a doctrine. It is the enunciation of a system countenanced by America in the conduct of its public affairs and relating to its intercourse with European countries in reference to this hemisphere. As such a policy, it is in consonance with the aspirations of all America. Between those who choose to treat it as dead, those who would abandon it, those who misinterpret it, those who make of it the vehicle of swaggering imperialism, those who dread the consequences both to ourselves and to our neighbors of its expansion into, or acceptance as, an American "entente," is there no happy medium, no middle way which would bring us all together on the path of unselfish and wise unity, in reaching which we may find that sincerity, fair dealing, regard for the rights of others, strict respect for national autonomy, comprehension of others' needs, as well as of our own, make not only for peace but for mutual prosperity?

This is the policy as today understood and as today applied.

It is not amiss to repeat here the words of our distinguished president on this subject. Addressing a commercial congress at Mobile, in October, 1913, he says:

You hear of "concessions" to foreign capitalists in Latin America. You do not hear of concessions to foreign capitalists in the United States. They are not granted concessions. They are invited to make investments. It is an invitation, not a privilege; and states that are obliged, because their territory does not lie

within the main field of modern enterprise and action, to grant concessions are in this condition, that foreign interests are apt to dominate their domestic affairs, a condition of affairs always dangerous and apt to become intolerable. What these states are going to see, therefore, is an emancipation from the subordination, which has been inevitable, to foreign enterprise and an assertion of the splendid character which, in spite of these difficulties, they have again and again been able to demonstrate. The dignity, the courage, the self-possession, the self-respect of the Latin American states, their achievements in the face of all these adverse circumstances, deserve nothing but the admiration and applause of the world. They have had harder bargains driven with them in the matter of loans than any other peoples in the world. Interest has been exacted of them that was not exacted of anybody else, because the risk was said to be greater; and then securities were taken that destroyed the risk—an admirable arrangement for those who were forcing the terms.

I rejoice in nothing so much as in the prospect that they will now be emancipated from these conditions, and we ought to be the first to take part in assisting in that emancipation.

We must prove ourselves their friends and champions upon terms of equality and honor. You cannot be friends upon any other terms than upon the terms of equality. You cannot be friends at all except upon the terms of honor. We must show ourselves friends by comprehending their interest whether it squares with our own interest or not. It is a very perilous thing to determine the foreign policy of a nation in the terms of material interest. It not only is unfair to those with whom you are dealing, but it is degrading as regards your own actions.

Comprehension must be the soil in which shall grow all the fruits of friendship. . . . I want to take this occasion to say that the United States will never again seek one additional foot of territory by conquest. . . .

She must regard it as one of the duties of friendship to see that from no quarter are material interests made superior to human liberty and national opportunity. I say this, not with a single thought that anyone will gainsay it, but merely to fix in our consciousness what our real relationship with the rest of America is. It is the relationship of a family of mankind devoted to the development of true constitutional liberty. We know that that is the soil out of which the best enterprise springs. We know that this is a cause which we are making in common with our neighbors.

In emphasizing the points which must unite us in sympathy and in spiritual interest with the Latin American peoples we are only emphasizing the points of our own life, and we should prove ourselves untrue to our own traditions if we proved ourselves untrue friends to them.

At a still earlier date—on the 12th of March, 1913—the president made this formal announcement:

One of the chief objects of my administration will be to cultivate the friendship and deserve the confidence of our sister republics of Central and South America, and to promote in every proper and honorable way the interests which are common to the peoples of the two continents. I earnestly desire the most



cordial understanding and coöperation between the peoples and leaders of America, and, therefore, deem it my duty to make this brief statement.

Mutual respect seems to us the indispensable foundation of friendship between states as between individuals.

The United States has nothing to seek in Central and South America except the lasting interests of the peoples of the two continents, the security of governments intended for the people and for no special group or interest, and the development of personal and trade relationships between the two continents which shall redound to the profit and advantage of both and interfere with the rights and liberties of neither.

This "cause which we are making in common with our neighbors," and these "interests which are common to the peoples of the two continents," unquestionably embrace a proper limitation and a clear definition of American neutral rights and obligations, and the occasion offers us an opportunity to unite with our sister republics of the south in this common cause, which in this instance is also the common cause of humanity.

Surely, all the nations of both Americas are desirous of avoiding entanglements with European or Asian nationalities; all are at one in the determination that they must be unhampered in developing their own political future in the democratic forms of government which they have adopted; safe from either forcible or insidious influence of other powers. To this their distance from the shores of the eastern hemisphere is some protection, but their own mutual understanding and coöperation will always be far more potent.

As for material progress and development, a like understanding and coöperation must surely enhance it; a more active commercial intercourse; more and better means of communication will open additional markets for their exports, and greater competitive fields from which to draw their imports. The financial center is no longer safely anchored in Europe; the present growth and the immediate possibilities of our own money markets offer opportunities for trade which, in the interest of all, should be availed of and fostered; it is the part of wisdom that every portion of the western world should come to an intelligent and amicable understanding of the respective advantages which each portion offers to the other, and by such understanding make them the more fruitful.

It is time for suspicion and distrust,—restless and disturbing bedfellows,—to give way to confidence. It is time for united action in all those things which are unquestionably of common interest.

Fair and liberal commercial relations are one of these things; favorable credits on the one hand, reasonable security on the other; mutual helpfulness in the enhancing of transportation facilities, due regard for local requirements in shipping; all these are helps which will be of equal benefit to all.

The safeguarding of our distant and neutral shores from any noxious effects of eastern wars is a prerequisite condition of uninterrupted economic activity, to ensure which we can and should unhesitatingly unite.

To work this forward step in the international relations of war will be also, let us hope, a step in our further union; our further union for the protection and enhancement of our mutual economic interests; our union in an earnest endeavor to bring about that financial and economic emancipation of all Latin American countries, which President Wilson has so earnestly and eloquently advocated—precisely as in the message of President Monroe a like emancipation was sought against political and governmental influences on this western hemisphere. We may thus hope to give assurance to the world that America—the two Americas—stand together, and that, far from becoming imperialistic and oppressive, the policy of Monroe has blossomed into a newer and larger fraternity which henceforth may be known as the “Wilson Doctrine.”

# THE RIGHT OF CITIZENS OF NEUTRAL COUNTRIES TO SELL AND EXPORT ARMS AND MUNITIONS OF WAR TO BELLIGERENTS

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Since the beginning of the present war two questions as to the rights and duties of the United States have engaged the attention of our people before all others, I think because of the human interest which they involve. The first of these is the question whether the United States as one of the leading neutral nations signatory to the Hague conventions had a right and duty to protest against the violation of the neutrality of Belgium. People were interested in this because, beyond the technical questions of conventional law, they saw the ruin of a rich country and the destruction of a brave people, and ultimately a great injury to civilization itself.

The second question which has evoked general interest, and to which I propose to ask your attention for a few minutes is whether the United States has either a legal or moral duty to forbid the exportation of arms and munitions of war to the belligerents. This question is not a new one, or peculiar to the present contest; witness Lowell's complaint in his inimitable *Biglow Papers* of a similar traffic on the part of British subjects during the Civil War, when he said:

You wonder why we're hot, John,  
Your mark was on the guns,  
The neutral guns that shot, John,  
Our brothers and our sons.

Witness also Sir William Vernon Harcourt's masterly defense under the pen name of Historicus, of the right of the citizens of neutral nations to engage in this trade, a defense to which it is submitted practically nothing can be added at the present day aside from bringing it up to date.

## *The Present Rule of International Law is Clear*

Fortunately there is not and cannot be any serious dispute as to what the rule of international law upon this subject is. It was

laid down in unequivocal terms over one hundred years ago by Jefferson<sup>1</sup> and Hamilton<sup>2</sup> in the midst of a crisis which, as our chairman has pointed out, was infinitely greater for our infant nation than that through which we are passing today. And it is interesting to note that it was defended by them upon practically the same grounds upon which it is defended by the official reporter of Convention V<sup>3</sup> of the Hague conference of 1907, "Respecting the

<sup>1</sup> "In one of these memorials it is stated that arms and military accoutrements are now buying up by a French agent in this country, with an intent to export them to France. We have answered that our citizens have always been free to make, vend, and export arms; that it is the constant occupation and livelihood of some of them. To suppress their callings, the only means, perhaps, of their subsistence, because a war exists in foreign and distant countries, in which we have no concern, would scarcely be expected. It would be hard in principle, and impossible in practice. The law of nations, therefore, respecting the rights of those at peace, has not required from them such an internal derangement in their occupations. It is satisfied with the external penalty pronounced in the president's proclamation, that of confiscation of such portion of these arms as shall fall into the hands of any of the belligerent powers, on their way to the ports of their enemies. To this penalty our citizens are warned that they will be abandoned, and that the purchases of arms here may work no inequality between the parties at war, the liberty to make them will be enjoyed equally by both." (Jefferson to Ternant, French Minister to the United States, May 15, 1793. *American State Papers*, Vol. 1, p. 147, quoted in Moore's *International Law Digest*, sec. 1308, Vol. 7, p. 955.)

<sup>2</sup> "A neutral nation has a general right to trade with a power at war. The exception of contraband articles is an exception of necessity; it is a qualification of the general right of the neutral nation in favor of the safety of the belligerent party. And it is from this cause, and the difficulty of tracing it in the course of commercial dealings, that for the peace of nations, the external penalty of confiscation is alone established." (Hamilton to Washington, May 15, 1793. *Hamilton's Works* (Lodge), Vol. 4, p. 416.)

<sup>3</sup> This convention was reported to the conference by a sub-commission over which the distinguished Dutch jurist, M. Asser, presided, and which numbered among its members: Major General de Gündell, military delegate of Germany; Brigadier-General George B. Davis, U. S. A.; Baron Giesel de Gieslingen, major-general and military delegate of Austria; and the distinguished jurists M. Beernart, M. Louis Renault, and Lord Reay. Colonel Borel, professor at the University of Geneva, and plenipotentiary delegate of Switzerland, was the official reporter; and he explains and justifies the rule laid down in Article 7, in the following language:

"The rule which this article lays down is justified in itself independently of the reasons of a practical nature which militate in its favor. As a matter of principle, neutral states and their peoples ought not to suffer the consequences of a war which is foreign to them. The burdens and restrictions which it places upon their

rights and duties of Neutral Powers and Persons in case of War on Land," to which both Germany and the United States are parties, and which reads, Article 7, as follows:

"A neutral power is not called upon to prevent the export or transport on behalf of one or other of the belligerents, of arms, munitions of war, or, in general, of anything which can be of use to an army or fleet."

It may be granted that this convention is not technically in force in the present war, but it affords a concise and authoritative statement of the acknowledged rule of law, a rule of law which appears to be recognized by Germany, which while strongly remonstrating against the contraband trade engaged in by the citizens of the United States as inconsistent, under the circumstances, with "the spirit of true neutrality" appears to admit that it does not constitute a "formal breach of neutrality."<sup>4</sup>

liberty of action should be confined to what is absolutely necessary. There is no good reason for prohibiting or burdening the commerce of the inhabitants of neutral states even in regard to articles mentioned in the text just cited. Every restriction upon neutral states in that matter which might be suggested would bring about in practice the greatest difficulties and would create inadmissible burdens on commerce in general." (Proceedings of the Second Hague Conference, Vol. 1, p. 141. Free translation.) Hague Convention XIV of 1907, "Concerning the rights and duties of neutral powers in naval war," to which the United States and Great Britain are parties, has an identical provision with Article 7 above quoted of Convention V.

<sup>4</sup> "The German government believe that they are obliged to point out very particularly and with the greatest emphasis, that a trade in arms exists between American manufacturers and Germany's enemies which is estimated at many hundred million marks.

"The German government have given due recognition to the fact that as a matter of form the exercise of rights and the toleration of wrong on the part of neutrals is limited by their pleasure alone and involves no formal breach of neutrality. The German government have not in consequence made any charge of *formal breach of neutrality*. The German government cannot, however, do otherwise, especially in the interest of absolute clearness in the relations between the two countries, than to emphasize that they, in common with the public opinion in Germany, feel themselves placed at a great disadvantage through the fact that the neutral powers have hitherto achieved no success or only an unmeaning success in their assertion of the right of trade with Germany, acknowledged to be legitimate by international law, whereas they make unlimited use of their right to tolerate trade in contraband with England and our other enemies. Conceded that it is the formal right of neutrals not to protect their legitimate trade with Germany and even to allow themselves knowingly and willingly to be induced

It would be a work of supererogation to pile up diplomatic and judicial authorities in support of the right of the citizens of a neutral nation to engage in contraband trade with a belligerent.<sup>5</sup> Despite the protest which the belligerent frequently makes, neutral nations have almost universally asserted and maintained this right. The exceptional cases in which the ordinary rule has not been followed in practice by neutral nations—such as the very significant exception to which His Excellency the Brazilian ambassador has called attention,<sup>6</sup> the prohibition of the exportation of arms and munitions of war by Brazil during the Spanish-American war and during the present struggle, only serve to bring out more clearly the practical unanimity with which the nations of the world have not only accepted the ordinary rule, but acted on it. There is perhaps no important rule of international law better settled than that which permits the inhabitants of neutral countries to sell and export contraband to belligerents, subject to the belligerent's right to intercept on the high seas and confiscate contraband destined for its adversary.

When any rule of international law emerges from the perennial conflict between neutrals and belligerents with such unanimous acceptance it may be safely assumed that whatever may be said of it in theory it is based upon sound practical considerations. The justification for the particular rule in question is not far to seek. So long as war is to be waged, a fair balance of convenience must be

by England to restrict such trade, it is on the other hand not less their good right, although unfortunately not exercised, to stop trade in contraband, especially the trade in arms, with Germany's enemies. . . . In regard to the latter point [contraband trade especially in war materials by neutral merchant vessels], the German government ventures to hope that the American government upon reconsideration will see their way clear to a measure of intervention in accordance with the *spirit of true neutrality*." (The German minister for foreign affairs, to the American ambassador at Berlin, February 16, 1915.) See also the note of the German Embassy to the secretary of state, of April 4, 1915, transmitting a "memorandum on the German-American trade, and the question of delivery of arms" in which the Imperial government observes that "It is necessary to take into consideration not only the formal aspect of the case, but also the *spirit in which the neutrality is carried out*"; and further says that "If it is the will of the American people that there shall be a *true neutrality* the United States will find the means of preventing this *one-sided* supplying of arms, or at least of utilizing it to protect legitimate trade with Germany, especially that in foodstuffs." (The italics in all cases are those of the present writer.)

<sup>5</sup> See Moore's *International Law Digest*, Vol. VII, sec. 1308, *passim*.

<sup>6</sup> See page 150.

struck between the necessities of belligerents and the rights of neutrals. It would be oppressive and impracticable to call upon a neutral nation to harass its own citizens and restrain their conduct in their own country in manufacturing, selling and exporting munitions of war. On the other hand it would be futile to expect a belligerent to sit passively by and allow these munitions of war, once they have left the country of their origin and are embarked upon the high seas, to reach its adversary. Hence the compromise. Neutral citizens may sell and export; a belligerent nation may intercept and confiscate if it can.

*Is it desirable in the abstract to change the present rule?*

It is to be conceded, of course, that there is nothing sacred about the compromise embodied in the present rule of international law. The rule can naturally be changed by common consent or international convention, and the United States can, if it sees fit, without reference to the rule of international law, change its municipal law by forbidding the exportation of arms and munitions of war to belligerents. Several bills to this effect were introduced at the last session of Congress, and there is an organized propaganda in the country working to this end.

In considering the proposed embargo, two general questions are presented for consideration: first, whether or not the proposed change is desirable in the abstract at any time; and second, whether or not it is desirable at this time. The abstract question will be first considered.

If the rule of international law is changed, if the inhabitants of neutral countries are inhibited from exporting munitions of war to belligerents, then immediately it becomes the duty of the neutral nations to prevent such exportation just as it now is their duty to prevent armed expeditions from being set on foot on their territory to attack belligerents. And in like manner belligerents become entitled to take an interest in the performance of this duty on the part of neutrals, and to make reclamations for damages if the duty is not fulfilled with "due diligence." Of course the United States could not work a change in the general rule of international law by laying an embargo. But it could enlarge the international duties of the United States. As soon as the embargo act became a law, belligerents, by virtue of the Hague convention of 1907, No. V,

above referred to (Article 9), as well as by the general principles of international law, would be entitled to demand that the new legislation should be "impartially applied." The practical result would be, therefore, that, whereas at present we have no responsibility with respect to ordinary commercial shipments of munitions of war, the day after the proposed law went into effect we would find ourselves liable to representations with possible claims for damages in the background, from any and all of the belligerents because, say, of alleged failure to use "due diligence" impartially to apply the new law by stopping the exportation of Winchesters from Portland, Maine, or Oregon, ostensibly for lion-hunting in Abyssinia, or blasting powder from El Paso, Texas, billed to some American mine-owner in Mexico. If in enforcing the new law we looked merely to the primary destination, it would be a farce. If we endeavored to look to the ultimate destination, it would impose an intolerable burden.

Moreover, the belligerents would take an interest, not merely in the final act of exportation, but they would naturally be watchful of the manufacture and shipment within the United States of arms and ammunition which might ultimately be destined for export, and would diligently seek to keep themselves informed thereof by their secret agents, and as diligently bring the reports of their secret agents to the state department with requests for preventive action.

Far from tending toward international harmony, the proposed legislation would, it is believed, tend to multiply our duties and burdens, and thereby create international claims and international animosity. Neutral duties would be enormously increased and neutral rights restricted in an age when we had been taught to believe that peace and not war was to be the normal status of the nations. As Sir William Vernon Harcourt said in his *Letters of Historicus*, with reference to a similar proposition advanced at the time of our Civil War:

If the sale of munitions of war is to be held a breach of neutrality, "instantly upon the declaration of war between two belligerents, not only the traffic by sea of all the rest of the neutral powers of the world would be exposed to the inconveniences of which they are already impatient, but the whole inland trade of every nation of the earth, which has hitherto been free, would be cast into the fetters. . . . It would give to the belligerent the right of interference in every act of neutral domestic commerce, till at last the burden would be so enormous that neutrality itself would become more intolerable than war, and the result of



this assumed reform, professing to be founded on 'the principles of eternal justice,' would be nothing less than universal and interminable hostilities." <sup>7</sup>

Moreover, although the proposition now being most discussed is limited to forbidding the exportation of arms and munitions of war, once the principle of such legislation finds approval it is likely to lead to still further encroachments on neutral commerce. The next step will naturally be to demand an embargo on conditional contraband, <sup>8</sup> whatever that may be, and no one can well foresee the complications to which this might lead.

"If Mexico," said Mr. Seward, "shall prescribe to us what merchandise we shall not sell to French subjects, because it may be employed in military operations against Mexico, France must equally be allowed to dictate to us what merchandise we shall allow to be shipped to Mexico, because it might be belligerently used against France. Every other nation which is at war would have a similar right, and every other commercial nation would be bound to respect it as much as the United States. Commerce in that case, instead of being free or independent, would exist only at the caprice of war." <sup>9</sup>

Such being the justification for the present rule and the practical objections to the proposed change, what can be said in the abstract in favor of changing the established rule of international law in the manner proposed? So far as the writer is aware the two main arguments which have been urged in favor of such a change are: first, that it is wrong for neutral governments to permit their citizens to trade in munitions of war to be used against nations with which they are at peace; and second, that the prohibition of this traffic would tend to diminish the frequency, duration and severity of future wars. The ethical argument is, of course, sound from the point of view that all war is wrong, and that any assistance—direct or indirect—toward carrying on war is wrong under all circumstances. Unfortunately, however, the world is not yet prepared to accept this viewpoint. If it was, war would cease to exist at once, and there

<sup>7</sup> Quoted in sec. 1308, Moore's *International Law Digest*, Vol. VII, p. 970.

<sup>8</sup> If it be suggested as against this particular argument, that "conditional contraband" should be abolished and a single list of contraband agreed on, as recently proposed by the distinguished chairman of this meeting, the answer is, first, that this proposition has not yet been adopted; and second, that any agreed list of absolute contraband is likely to be so lengthy as to involve a most serious stoppage to neutral commerce in time of war.

<sup>9</sup> Mr. Seward, secretary of state, to Mr. Romero, Mexican minister, December 15, 1862. Moore's *International Law Digest*, sec. 1308, p. 958.

would be no necessity for the legislation proposed. But granting that wars must for the present be endured from time to time, it is submitted that it is very doubtful whether the proposed change would tend to render them less frequent or less bloody. It would simply result in largely increased purchases of munitions of war during times of peace (unless it is also proposed to prohibit commerce in munitions of war in time of peace), and in the great increase in every country, and particularly in the United States, of the amount of fixed capital invested in the business of manufacturing munitions of war. In other words, if international commerce in munitions of war were forbidden while war itself remains, every country, according to its capacity, would have to do as Germany has done in anticipation of failure to control the seas, and every nation would have its own Essen and its own "Kanonen König." And if by any chance a peaceful country like the United States became involved in war before it had adjusted itself to the new rule by building up great establishments for the production of arms and armaments, it would pay dearly for its neglect. Instead of decreasing, it is believed that this would increase the influences in every state which make for war, unless the whole business of the manufacture of arms and munitions of war was everywhere made a government monopoly, which would raise other interesting questions—among them, whether or not the entire world has yet progressed to the point where liberty would be safe if revolution were made practically impossible through universal governmental control of the manufacture of munitions of war—questions which would lead us too far afield.

Let us not be deceived into thinking that we can abolish war by making it more burdensome for neutrals, and compelling even the non-military nations to join in the competitive construction of gun factories.

*Is it desirable to change the present rule at this time?*

So much on the abstract question as to changing the long-established rule of international law. But how stands the case for the proposed change in view of the actual conditions now obtaining? The proponents of the embargo proposition before Congress maintained "that it is a condition, not a theory which confronts us"; that as a practical matter England commands the seas, and arms and munitions can only be exported to the Allies and not to Ger-

many and Austria; that the rule of international law therefore lacks under these circumstances the "moral background"<sup>10</sup> which supports it; and to maintain it, is to fail in genuine neutrality. In this connection reference is made to Jefferson's statement that in order that "the purchases of arms here may work no inequality between the parties at war, the liberty to make them will be enjoyed equally by both." But the answer to this suggestion is obvious. The liberty to make purchases, to which Jefferson referred, is still "enjoyed equally" by both belligerents, and it is no more the concern of the United States that Germany is unable to import contraband because the British fleet commands the seas, than it would be if her failure to make use of her liberty to purchase resulted from lack of money to pay for the arms, or, as might well be the case, from the abundant ability of the Krupp works to supply her necessities.

With all deference to those who talk about "changed conditions," it is submitted that suddenly to change our law which conforms to our international duties, because England commands the seas rather more completely than she did a hundred years ago, is simply to intervene to undo the effects of her naval preparedness and naval victories. There was a time not so very long ago when Germany was victorious in the South Pacific. Would it have been fair for Chile immediately after the German victory to have forbidden the exportation of arms and ammunition, on the ground that none could get through to England?

Again, it is suggested, and this time in an official memorandum of the German government, that it makes a difference that "all nations having a war material industry worth mentioning are involved in the war themselves, or are engaged in perfecting their own armaments," and therefore the United States is "the only neutral country in a position to furnish war materials."<sup>11</sup> With all defer-

<sup>10</sup> See Congressman Barthold's statement before the House Committee of Foreign Affairs, December 30, 1914, Hearings on H. J. Res. 377, 378, p. 25, etc. See also the reference in the memorandum of the German government handed to the State Department by the German ambassador, April 4, 1915, to "this one-sided supplying of arms," and to the "theoretical willingness to supply Germany." See *supra*, p. 171, note.

<sup>11</sup> "The situation in the present war differs from that of any previous war. Therefore any reference to arms furnished by Germany in former wars is not justified, for then it was not a question *whether* war material should be supplied to the belligerents, but *who* should supply it in competition with other nations

ence it is submitted that it would be very singular if either the legal or the moral rights of the United States as a neutral could be affected by the number of the belligerents or the character of their industries.

It is argued in the same German memorandum that it makes a difference at least "in accordance with the spirit of true neutrality" that the arms industry of the United States is being developed through the enlargement of the present establishments and the building of new ones.<sup>12</sup> But surely it is no new thing for war to create as well as to destroy industries in neutral nations. One is as legitimate as the other, provided the rules of international law are observed. Belligerents cannot eat their cake and have it. Similar suggestions to the effect that the legitimacy of trade in contraband was effected by its size have been made in the past,<sup>13</sup> but have never found a lodgment in the law. It is submitted with all deference that they are totally impractical—as impractical as it has been found to be to make mere bigness a test of the violation of the Sherman anti-trust act.

Precedent for the proposed action under such circumstances as the present, there is absolutely none. Obviously our embargo on the exportation of munitions of war in 1794, when war with England threatened, our general embargo of thirty days just before the war of 1812, and our embargo on the exportation of arms and munitions

In the present war all nations having a war material industry worth mentioning are either involved in the war themselves or are engaged in perfecting their own armaments, and have therefore laid an embargo against the exportation of war material. The United States is accordingly the only neutral country in a position to furnish war materials. The conception of neutrality is thereby given a new purport, independently of the formal question of hitherto existing law." (German memorandum enclosed in the note of the Imperial German Embassy of April 4, 1915.)

<sup>12</sup> "In contradiction thereto, the United States is building up a powerful arms industry in the broadest sense, the existing plants not only being worked but enlarged by all available means, and new ones built. The international conventions for the protection of the rights of neutral nations doubtless sprang from the necessity of protecting the existing industries of neutral nations as far as possible from injury in their business. But it can in no event be in accordance with the spirit of true neutrality if, under the protection of such international stipulations, an entirely new industry is created in a neutral state, such as is the development of the arms industry in the United States, the business whereof, under the present conditions, can benefit only the belligerent powers." (German memorandum enclosed in the note of the Imperial German Embassy of April 4, 1915.)

<sup>13</sup> See Moore's *Digest*, Vol. VII, p. 960.

of war in 1898, just before we went to war with Spain, are not in point, unless the pending legislation be advocated as a precaution in view of our possibly becoming involved in the war. The recent embargoes on the exportation of arms and ammunition, instituted by neutral nations such as Italy and Holland, which have mobilized and are admittedly making every preparation for possible if not probable participation in the great struggle, are likewise not in point. Nor are similar embargoes recently declared by certain other neutral nations of Europe which, in addition to their desire to keep all their munitions of war for possible use at home, are also probably influenced by their desire to free their commerce as far as possible from interruption by English cruisers searching for contraband destined for ultimate trans-shipment from the neutral country to Germany.

As little relevant is our prohibition (under the old Spanish war resolution of 1898) of the shipment of arms and ammunition to San Domingo, in 1905, in aid of the pacification of the republic in connection with the administration of the Dominican customs and the adjustment of the Dominican debt through the aid of the United States.

But the great reliance by way of precedent of both the domestic and foreign critics of our present and time-honored policy of permitting unrestricted trade in contraband is the act of March 14, 1912, which provides:

That whenever the president shall find that in any American country conditions of domestic violence exist which are promoted by the use of arms or munitions of war procured from the United States, the president is hereby authorized, in his discretion, and with such limitations and exceptions as shall seem to him expedient, to prohibit by proclamation the export of arms or munitions of war from any place in the United States to such country until otherwise ordered by the president or by Congress.

This is not the place for a discussion of the merits of this law or the action which has been taken under it by President Taft and President Wilson, with reference to Mexico, except to submit that the whole policy of the United States in this connection has been founded upon what were thought by Congress and the executive to be the peculiar relations existing between the United States and the other American republics, and not upon the general principles of international law governing the relation of neutrality. As was said

in a statement given out at the White House at the time of the president's proclamation, February 3, 1914, raising the embargo on the exportation of arms and munitions of war to Mexico, "The Executive order under which the exportation of arms and munitions of war into Mexico was prohibited was a departure from the accepted practice of neutrality."<sup>14</sup>

<sup>14</sup> Certain general expressions in President Wilson's address to Congress in regard to the Mexican situation on August 27, 1913, are sometimes relied on as supporting a different view. These expressions are: "It was our duty to offer our active assistance. It is now our duty to show what true neutrality will do to enable the people of Mexico to set their affairs in order again and wait for a further opportunity to offer our friendly counsels. . . .

"For the rest, I deem it my duty to exercise the authority conferred upon me by the law of March 14, 1912, to see to it that neither side to the struggle now going on in Mexico receive any assistance from this side of the border. I shall follow the best practice of nations in the matter of neutrality by forbidding the exportation of arms or munitions of war of any kind from the United States to any part of the republic of Mexico—a policy suggested by several interesting precedents, and certainly dictated by many manifest considerations of practical expediency. We cannot in the circumstances be the partisans of either party to the contest that now distracts Mexico, or constitute ourselves the virtual umpire between them."

It is submitted, however, that these general expressions should be considered in connection with the precise point under discussion here which was the question of prohibiting the export of arms and ammunition to both sides and not merely to the Constitutionalists, as had theretofore been done. If the Constitutionalists and the forces of General Huerta had been independent nations, correct neutrality would of course have required any embargo on the exportation of arms and ammunition to be enforced equally against both. It is submitted that the recent German memorandum is not entirely happy in its reference to this Mexican precedent. It is said:

"On February 4, 1914, President Wilson, according to a statement of a Representative in Congress in the Committee for Foreign Affairs of December 30, 1914, upon the lifting of the embargo on arms to Mexico, declared that 'we should stand for genuine neutrality, considering the surrounding facts of the case. . . .' He then held that 'in that case, because Carranza had no ports, while Huerta had them and was able to import these materials, that it was our duty as a nation to treat (Carranza and Huerta) upon an equality if we wished to observe the true spirit of neutrality as compared with a mere paper neutrality.'"

President Wilson's proclamation of February 3, 1914, lifted the embargo on the ground that "as the conditions on which the proclamation of March 14, 1912, was based have essentially changed, and as it is desirable to place the United States with reference to the exportation of arms or munitions of war to Mexico in the same position as other powers, the said proclamation is hereby revoked."

(OVER)

Another incident which has been very much overworked is the supposed stopping by the German government of a ship "loaded with arms and munitions of war"<sup>15</sup> bound from Hamburg to Spain during the Spanish-American war of 1898.

According to press dispatches the German ambassador at the time of giving out the text of the German memorandum of April 4, 1915, mentioned the incident, and quoted a portion of Mr. Andrew D. White's account in his autobiography. The facts of this incident briefly related by Mr. White<sup>16</sup> are more fully shown in the appended statement obtained on informal application at the department of state.<sup>17</sup> It will be observed that no shipment of contraband was

This proclamation was accompanied by the White House statement quoted in the text, from the press dispatches of February 4, 1914, which asserts in the clearest terms that *the original imposition of the embargo* by the United States under act of March 14, 1912, was not an expression of this government's conception of its duty as a neutral.

<sup>15</sup> Hearings before the Committee of Foreign Affairs of the House on H. J. Res. 377-378, December 30, 1914, p. 28.

<sup>16</sup> "As to the conduct of Germany during our war with Spain, while the press, with two or three exceptions, was anything but friendly, and while a large majority of the people were hostile to us on account of the natural sympathy with a small power battling against a larger one, the course of the Imperial government, especially of the Foreign Office under Count von Bülow and Baron von Richthofen, was all that could be desired. Indeed, they went so far on one occasion as almost to alarm us. The American consul at Hamburg having notified me by telephone that a Spanish vessel, supposed to be loaded with arms for use against us in Cuba, was about to leave that port, I hastened to the Foreign Office and urged that vigorous steps be taken, with the result that the vessel, which in the meantime had left Hamburg, was overhauled and searched at the mouth of the Elbe. The German government might easily have pleaded, in answer to my request, that the American government had generally shown itself opposed to any such interference with the shipments of small arms to belligerents, and had contended that it was not obliged to search vessels to find such contraband of war, but that this duty was incumbent upon the belligerent nation concerned." (Autobiography of Andrew D. White, Chapter XVI, pp. 168, 169.)

<sup>17</sup> "It appears that on May 18, 1898, Ambassador Andrew D. White received a telephonic message from the American consul at Hamburg that the Spanish ship *Pinzon* would sail within an hour for Cardiff to take on a cargo of coal for Spanish port; that a part of the message was indistinct, and that it could not be clearly understood whether the ship was or was not liable to seizure on other grounds. The ambassador, therefore, not desiring to incur delay by asking explanations went immediately to the Foreign Office and asked for the arrest and search of the vessel, and it was promised that everything possible should be done.

"On the next morning the ambassador received a telegram from the American

"stopped" but at the request of the ambassador a ship was searched, no contraband being in fact found. The ambassador requested a search of the ship on the strength of an indistinct telephone message from the American consul at Hamburg which left Mr. White in doubt as to whether or not the ship in question might not be liable to seizure on other grounds than the carriage of contraband. Delay was impossible since the ship was about to sail. As soon as the department of state heard of the incident it instructed the ambassador to ascertain whether or not there were "any laws or regulations in force in Germany, forbidding the shipment of contraband of war," observing that

It is important that if any such laws or regulations exist this government and its agents may be informed of them so as to avoid the embarrassments which might arise if it should appear to protest on the general principles of international law against neutral governments allowing articles regarded merely as contraband of war to be shipped from their ports.

The ambassador reported that there were no such laws or regulations in force, and the matter was dropped.

It is submitted that neither as an abstract proposition, nor in consul that the *Pinzon* when passing Cuxhaven the preceding night was searched for war contraband by order of the German Chancellor, but that nothing was found.

"Upon receipt of this information on June 6, 1898, the Department instructed the ambassador that:

"In view of the reported action of the Imperial German government in directing the search of the *Pinzon* for contraband of war the Department desires to be advised as to whether there are any laws or regulations in force which forbid the shipment of contraband of war from Hamburg or any other German port. It is assumed that you can obtain such information without applying to the German government for it. It is important that if any such laws or regulations exist this government and its agents may be informed of them so as to avoid the embarrassments which might arise, if it should appear to protest on the general principles of international law against neutral governments allowing articles regarded merely as contrabands of war to be shipped from their ports.'

"In reply to this instruction the Ambassador on July 22 informed the Department without application to the German government for positive information on the subject that he had been unable to ascertain that there had ever been any legislation upon the subject of contraband in the Empire. The ambassador added that Germany had never issued a proclamation of neutrality, and that the Reichstag had not discussed the question of contraband since 1894, and that the Embassy had no knowledge of the issue of any regulations on the subject since the existence of war with Spain."



view of the particular facts now obtaining, neither as a matter of reason nor of precedent, should the United States depart from the well-established rule of international law which secures to the inhabitants of neutral countries the right to engage in trade in contraband of war, subject to the customary external penalty of capture and confiscation at the hands of the belligerents.

## **THE SALE OF MUNITIONS OF WAR BY NEUTRALS TO BELLIGERENTS**

**BY CHARLES NOBLE GREGORY, LL.D.,**

**Washington, D. C.**

With respect to the rights of our citizens as neutrals to sell munitions of war to any belligerent power, it is submitted:

1. That these rights are in no way denied by the rules of international law.

2. That these rights are not forbidden by any municipal statute or ordinance except as to vessels of war and, in certain limited cases, as to our neighboring American republics, when the latter are involved in civil strife.

3. That such rights have been constantly exercised in this country since the beginning of its history and in like manner have been habitually exercised by the manufacturers of the most enlightened commercial nations of the world, not only in remote times, but during all recent wars.

4. That such rights were fully recognized and reserved by the conventions of the Second Hague Conference in 1907.

5. That the maintenance of such rights is wise and necessary as their abolishment would force upon all nations a policy of the highest military and naval preparedness, which policy is one of vast economic loss and deeply hostile, instead of favorable, to peace.

6. That the fact that certain belligerents are prevented by the forces of the other from taking advantage of our markets does not make sales to those who have such access a breach of neutrality.

7. That the powers which most severely attack this right have greatly profited by habitually exercising it in all recent wars and, under parallel circumstances, where the market was accessible to but one of the belligerents, have continued these sales to the other.

As to the three first propositions that the right is denied by neither international nor municipal law and has been constantly exercised, one cannot do better than to quote a communication by Thomas Jefferson, Washington's secretary of state, and often deemed

the founder of one of our great political parties, to the British minister, May 15, 1793. Mr. Jefferson says:

Our citizens have been always free to make, vend and export arms. It is the constant occupation and livelihood of some of them. To suppress their callings, the only means perhaps of their subsistence, because a war exists in foreign and distant countries, in which we have no concern, would scarcely be expected. It would be hard in principle and impossible in practice. The law of nations, therefore, respecting the rights of those at peace, does not require from them such an internal disarrangement in their occupations. It is satisfied with the external penalty pronounced in the president's proclamation, that of confiscation of such portion of these arms as shall fall into the hands of any of the belligerents' powers on their way to the port of their enemies.<sup>1</sup>

Alexander Hamilton is clear in his declaration to the same effect in his Treasury Circular of August 4, 1793, which declares:

The purchasing within, and exporting from the United States, by way of merchandise, articles commonly called contraband, being generally war-like instruments, and military stores, is free to all the parties at war, and is not to be interfered with.<sup>2</sup>

In 1796 Mr. Adet, minister of France, complained of the export of contraband of war, namely horses, to the enemies of France but Mr. Pickering, secretary of state, maintained such practice, subject to the right of seizure in transit. He collects judicial decisions, both state and federal to support his views.

When in 1862 our neighboring republic of Mexico complained of the export of military supplies from the United States to that country, on French account, Mr. Lincoln's secretary of state, William H. Seward, replied:

If Mexico shall prescribe to us what merchandise we shall not sell to French subjects, because it may be employed in military operations against Mexico, France must equally be allowed to dictate to us what merchandise we shall allow to be shipped to Mexico, because it might be belligerently used against France. Every other nation which is at war would have a similar right, and every other commercial nation would be bound to respect it as much as the United States. Commerce, in that case, instead of being free and independent, *would exist only at the caprice of war.*<sup>3</sup>

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<sup>1</sup> Mr. Jefferson, secretary of state, to British minister, May 15, 1793. *5 M. S.; Dom. Let.* 105; *1 American State Papers* 69, 147; *3 Jefferson's Works*, Pp. 558, 560. quoted, *7 Moore's Digest*, p. 955.

<sup>2</sup> *American State Papers, Foreign Reports*, p. 140; quoted, *Moore's Digest*, p. 955.

<sup>3</sup> Mr. Seward, secretary of state, to Mr. Romero, Mexican Minister, December 15, 1862. *M.S. Notes to Mexico* VII, 215-7; *Moore's Digest*, p. 958.

The above extract has especial force when we recall the strong opposition of this government and of Mr. Seward to the French occupation of Mexico, yet the principle was announced though contrary to national sympathy and personal feeling.

Mr. John Bassett Moore collates, in his invaluable digest, eighteen pages of extracts from the utterances of our presidents, secretaries of state and other high officials, to like effect, including in addition to those named, Presidents Pierce and Grant; secretaries of state Henry Clay, Marcy, Fish, Evarts, Bayard, Frelinghuysen Blaine, Foster, Olney and John Hay; attorneys general Speed and Harmon; also a clear and strong opinion by Mr. Elihu Root, when United States district attorney for New York.<sup>4</sup>

Turning from the utterances of our executive officers to the courts, we find the latter hold consistently that a contract for the export of contraband by neutral citizens to a belligerent is neither unlawful nor immoral; that it is merely subject to frustration by the other belligerents by seizure on the high seas or in belligerent territory; that courts of justice, therefore, though refusing to aid all illegal or immoral contracts, or those against public policy, yet fully recognize, enforce and give damages for breach of such contracts as above, recognizing them as innocent and the rights founded thereon as meritorious.<sup>5</sup>

In that case Lord Chancellor Westbury quoted the opinion of our own Supreme Court per Story J. (perhaps our greatest judicial scholar in international law) in the *Santissima Trinidad* (7 Wheaton, p. 240) that "there is nothing in our laws or in the law of nations that forbids our citizens from sending . . . munitions of war to foreign ports for sale. It is a commercial adventure which no nation is bound to prohibit, and which only exposes the persons engaged in it to the penalty of confiscation."

In 1905 the English courts held like doctrine as to the shipment of contraband during the Russo-Japanese war.<sup>6</sup>

In 1901 the United States Circuit Court for the Eastern Dis-

<sup>4</sup> See 7 *Moore's Digest*, pp. 955-973.

<sup>5</sup> See *Ex Parte Chavasse* in *Re Grazebrook* 34 L. J. N. S. Bankruptcy 17 (*Scott's Cases on International Law*, p. 779).

<sup>6</sup> See *Law Guarantee and Trust Soc. vs. Russian Banks* K. B. Div. H., Ct. Law Times, Vol. XVIII, p. 503. See also: 2 *Oppenheim International Law*, p. 431; *Taylor International Law*, p. 741.

trict of Louisiana was applied to by three persons, owners of property in the South African republic, to restrain the export of horses and mules from the United States by Great Britain for use in the Boer war, but such relief was denied, and the traffic in contraband was held by the court to be lawful and the rule not changed by the treaty relating to the Alabama Claims.<sup>7</sup>

The Hague Conference of 1907 adopted the following convention as to neutral duties in war on land and also as to maritime war:

A neutral power is not bound to prevent the export or transit on behalf of one or the other of the belligerents of arms, munitions of war, or, generally, of anything which can be of use to an army or fleet.<sup>8</sup>

The note in Hershey's *Essentials of International Public Law* page 459, to the above shows that official protests by belligerent governments against this right are heard in nearly every war. That the view represented by these protests is championed by a small band of publicists, notably Hautefeuille, Phillimore and Kleem, Professor Hershey, who, by the way, holds a doctorate from Heidelberg University, adds very justly, "It is without sanction, either in theory or practice."

One of the expert delegates of the United States at The Hague told this writer within the week that he remarked at The Hague that apparently the main object of the Conference was to prevent any interference with the export of arms by the Krupps at Essen.

These Hague Conventions were generally ratified—Austria-Hungary and Germany both ratifying them on November 27, 1909. I do not refer to these conventions as establishing any new rule but as stating clearly and agreeing explicitly to the existing rule.

Turning from the legality to the policy of the rule in question, it is submitted:

That a system under which a peaceful commercial state may not, when attacked, use her cash and her credit in the international markets to equip herself for defense is intolerable and in every way pernicious.

The war-like and aggressive nation chooses the moment of attack and is naturally fully equipped. If the nation assailed

<sup>7</sup> See *Pearson vs. Parson*, 108 Fed. R. 461. The number of judicial citations might be much increased if it were necessary.

<sup>8</sup> See Hershey's *Essentials of International Law*, pp. 459 and 467.

cannot replenish her supplies from outside she must always maintain them at the top notch of efficiency or she exposes herself to ruin.

If a nation, the moment she becomes, willingly or unwillingly, a belligerent, is helpless to augment her defensive equipment from outside, if she cannot, as this writer, if he may be allowed to quote himself, said recently in the *Outlook*, import "a pound of powder, a gallon of petrol, an ounce of copper, a gun, a sabre, a harness or a horse," then a wasteful system is forced on all nations under which they must always, without intermission or relaxation maintain their defenses and warlike supplies on a war footing of the highest efficiency and amplitude.

One of the ripest scholars in international law was the late Professor Westlake, one of the founders and presidents of the Institute of International Law. Moreover, his was one of the clearest, strongest and fairest minds addressed to international questions. In 1870, when a former Count Von Bernstorff, then German ambassador at London, protested against the export of military supplies from England to France during the Franco-German war, Professor Westlake discussing the effect of forbidding such export wrote:

One disadvantage of no ordinary magnitude I can plainly see. The manifest tendency of all rules, which interfere with a belligerent's power to recruit his resources in the markets of the world, is to give the victory in war to the belligerent who is best prepared at the outset; therefore, to make it necessary for states to be in a constant condition of preparedness for war; therefore to make war more probable.

In other words, as Professor Westlake has pointed out, it would tend strongly to force all nations to the extreme of militarism, a policy economically impoverishing and also most perilous to peace. The policy of open neutral markets for war supplies enables peaceful wealth to be transmuted and defense to be rapidly provided. Neutral markets would not be denied the aggressor by the restriction since he, knowing his plans, could largely provide for them before belligerency. As this writer lately observed:

Wars now are sudden as conflagrations in their origin and the advantages of preparation and initiative are immense. Why make them vastly greater? Why tempt to secret preparation and sudden aggression by greatly reducing the re-

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\* Collated papers, *Westlake on Public International Law*, p. 391.

sources and avails of the defending power? *Why aid the wolf and hamstring the lamb?* Why by a change of law and policy aid and encourage the predatory policy and debilitate defense? Such change must stimulate war and discourage peace.

It is therefore opposed to the general interest of mankind and the present rule is wiser and more pacific tending to maintain the safety and stability of the nations whose main employments are in the peaceful arts.

To bring the matter to a more recent date, a letter from the present secretary of state, Mr. Bryan, to Senator Stone, chairman of the senate committee on foreign relations, published on January 25, 1915, and understood to have been drafted by Mr. Robert Lansing,<sup>10</sup> is in accord with the above. Mr. Bryan says:

There is no power in the executive to prevent the sale of ammunition to the belligerents. The duty of a neutral to restrict trade in munitions of war has never been imposed by international law or by municipal statute. It has never been the policy of this government to prevent the shipment of arms or ammunition into belligerent territory, except in the case of neighboring American republics, and then only when civil strife prevailed. Even to this extent the belligerents in the present conflict, when they were neutrals, have never, so far as the records disclose, limited the sale of munitions of war.

His Excellency, the German ambassador to the United States, communicated to this government, and on April 12, 1915, gave to the press a statement criticising the conduct of this government in permitting the export of munitions of war to belligerents as "in contradiction with the real spirit of neutrality." His Excellency further urged an embargo against the shipment of war munitions to the allies or the use of this trade to force the allies to permit the export of food from the United States to Germany.<sup>11</sup> In the communication, this passage is found:

In reality the American industry is supplying only German's enemies, a fact which is in no way modified by the purely theoretical willingness to furnish Germany as well, if it were possible.

In reply an able note was sent to His Excellency signed by the secretary of state, Mr. Bryan, but said to have been penned by President Wilson. This impliedly treats the rights of neutrals to

<sup>10</sup> See *New York Herald*, January 25, 1915.

<sup>11</sup> See *New York Herald*, April 15, 1915.

export munitions of war to belligerents as settled and assured and declares our government holds:

That any change in its own laws of neutrality during the progress of a war which would affect unequally the relations of the United States with the nations at war, would be an unjustifiable departure from the principles of strict neutrality by which it has sought to direct its action, and I respectfully submit that none of the circumstances urged in your Excellency's memorandum alters the principle involved.

It is constantly strongly urged that since the allies command the seas, and the Germans cannot get access to our markets, while the allies can, that real neutrality requires us to refuse such supplies to the allies. It is submitted that nothing could be more impossible or confusing than to shift the rule of neutral obligations with the varying events and successes of war. The risks of capture may thus shift, but not the obligation of the neutral.

As Professor Westlake says:<sup>12</sup>

The standard set up is equality of treatment in the sense of permitting or furnishing to both belligerents the same things which are permitted or furnished to either, without regard to the fact that the passage of troops through neutral territory, coaling of fleet in neutral waters, or any other thing, may mean victory or *salvation* to the one, while the other *may be unable to avail himself of the licence or may find it of no value*.

German citizens have habitually sold vast quantities of military supplies to belligerents. Essen is perhaps the very center of military supplies and has exported on an enormous scale to belligerents in all modern wars, making, it is understood, vast profits from this traffic in the late Balkan wars. It will be interesting to know what has been Germany's practice when one of the belligerents had access to her markets and the other had not. Has the rule been observed, which she now presses upon us? Has she recognized this situation as compelling her to deny to the power having access, the right to buy, on the ground that *real neutrality so required?*

The war between the South African republic and Great Britain began in October, 1899, and was closed by the Treaty of Pretoria at the end of May, 1902. During the earlier portion of the war, supplies were received by the Boers through Lorenzo Marques, a neighboring Portuguese port with some freedom, but in August, 1900,

<sup>12</sup> *International Law*, p. 172.



all the customs officials at Lorenzo Marques were dismissed and their places filled by military officers and a force of 1,200 men was sent out from Lisbon. The frontier was guarded and the trade stopped.<sup>13</sup>

The strictness of the Portugese authorities increased with the decline of the fortunes of the Boers.

England had seized and searched a number of neutral steamers—including three German steamers—and positively claimed the right to seize contraband bound to the Boers though through a neutral port. She relied for this largely on the precedents of our Civil War, and it would appear that the access of the Boer force to German markets was substantially destroyed. The question occurred to the writer, would it be found that during the later years there were imported from Germany into England large quantities of arms and military supplies notwithstanding this situation? He therefore took the liberty to apply to the British Embassy at Washington which very obligingly cabled to London for information. April 27, a letter from the Embassy advised that "when the Boers were shut off from supplies by sea, Great Britain got from Germany 108 Fifteen-pounder quick-firing guns and 500 rounds per gun. They were purchased from Ehrhardt by private negotiation." It is respectfully submitted that this is sufficient to support the practice of our government. But this writer had made other investigations which showed vastly larger military supplies passing from Germany to Great Britain at this time. This appears from the statistics as to the foreign trade of the United Kingdom compiled at the custom house, and presented to both Houses of Parliament by command of His Majesty and printed for His Majesty's stationary office. These published records long anterior to the present unhappy controversy preserved in the Library of the Department of Commerce of the United States show that there were imported from Germany into Great Britain.

In 1899. Swords, cutlasses, matchets and bayonets, cwts. 782.

1900. Swords, cutlasses, matchets and bayonets, cwts. 1,664.

1901. Swords, cutlasses, and arms of other sorts not Firearms, cwts. 12,560.

1902. Swords, cutlasses, and arms of other sorts not Firearms, cwts. 50,734. Many more than from any other source.

Rifles, carbines, fowling pieces, muskets, pistols or guns of any sort.

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<sup>13</sup> See Campbell's *Neutral Rights in Anglo-Boer War*, p. 60.

1899. Value £655; in 1900, £428.

In 1901. Metal cartridge cases, other than small arms ammunition (more than six times as many as from any other source), 1,378,600.

1901. Cordite and other smokeless propellants, 231 cwts.

1901. Gunpowder, 318 cwts. 1902. 253 cwts.

Dynamite and other high explosives.

1901. 11,029 cwts. 1902. 14,771 cwts. and in latter year these explosives were worth £84,894.

Rockets and other combustibles for warlike purposes. Explosives and ammunition unenumerated.

1901. Of the Value of £29,546. 1902. Of £26,171.

*Small Arm Ammunition*

1901. Numbers 3,350,040. 1902. Numbers 4,732,500.

*Fuses, Tubes and Primers*

1901. Numbers 898,007. 1902. Numbers 2,033,116.

The consumption of ammunition in the present war is on so vast a scale that the above figures may seem trivial but we must remember that Mr. Lloyd George has recently said that in a single battle in the present war more ammunition was consumed than during the entire Boer war.

It is submitted that the above trade figures between Germany and Great Britain embalm a principle and afford a German precedent in entire accord with the law and practice announced by our own government. They are the more convincing because Germany's sympathy was strongly with the South African republic and strongly against England.

It is submitted that the practice of the government of the United States in declining to forbid the sale and export by its citizens of munitions of war to either belligerent at the present time is not in conflict with international or municipal law. It is in accord with a wise and salutary international policy. It is in entire harmony with the express declaration of the last Hague Conference and with the long continued practice of this country, and of those countries which have questioned the practice.

## AN ARGUMENT AGAINST THE EXPORTATION OF ARMS

BY EDMUND VON MACH,

Cambridge, Mass.

*The Democratic Text Book*, 1914, issued by the Democratic Congressional Committee and The Democratic National Committee, contains on page 43 the following announcement by Hon. W. J. Bryan, Secretary of State:

The announcement made by this government, that it regards the making of loans by American citizens to the governments of nations engaged in war as inconsistent with the spirit of neutrality, has created a profound impression throughout the world. It is the first time that a great nation has taken this stand on the subject of war loans. The matter has been discussed at The Hague and at peace conferences, but it encountered so much opposition that nothing tangible has resulted. The president, therefore, blazes a new way when, without conference with other nations and without support from Conventions, he commits this nation to his policy.

It is inconsistent with the spirit of neutrality for a neutral nation to make loans to belligerent nations, for money is the worst of contraband.

In these two paragraphs Mr. Bryan himself has refuted all the arguments of the opponents of a law laying an embargo on the export of munitions of war.

It is, moreover, noticeable that he uses the expressions "loans by American citizens to the governments of nations engaged in war" and "a neutral nation to make loans to belligerent nations" as synonymous so far as America is concerned. And so it should be, for here the sovereignty is the people's, and the government is theirs, too. It is impossible to quote as true for America those passages of the so-called Law of Nations—which really represents the crystallized customs of Europe—which say that citizens either individually or collectively can do what the government cannot do. The American government is, at least in theory, the expression of the collective will of the people.

President Cleveland expressed this idea in his annual message to Congress, December 2, 1895, when he said:

The performance of this duty [*i.e.*, to observe in "good faith" neutrality toward Spain] should not be made more difficult by a disregard on the part of our

citizens of the obligations growing out of their allegiance to their country which should restrain them from violating as individuals the neutrality which the nation of which they are members is bound to observe in its relations to friendly sovereign states.

And the Supreme Court of the United States has said (14 How. 38, 49):

For as the sovereignty resides in the people, every citizen is a portion of it, and is himself personally bound by the laws which the representatives of the sovereignty may pass, or the treaties into which they may enter, within the scope of their delegated authority. And when that authority has plighted its faith to another nation that there shall be peace and friendship between the citizens of the two countries, every citizen of the United States is equally and personally pledged. The compact is made by the department of the government upon which he himself has agreed to confer the power. It is his own personal compact as a portion of the sovereignty in whose behalf it is made. And he can do no act, nor enter into any agreement to promote or encourage revolt or hostilities against the territories of a country with which our government is pledged by treaty to be at peace, *without a breach of his duty as a citizen, and the breach of faith pledged to the foreign nation.* . . .

From the foregoing quotations, the authoritative importance of which for the conduct of American citizens and their government is undeniable, it would appear that:

1. What is morally wrong for the government is morally wrong also for each individual citizen.

2. When a large number of individual citizens persist in the commission of acts which run counter to the moral obligations of their government, the government has the right and the duty to take steps to prevent such acts.

3. It is contrary to the spirit of American institutions and the ideals of the American people, for the government to disclaim responsibility for the continued and open acts of a large number of their citizens.

4. American dealings with other nations must be *bona fide* and according to the spirit, and not only the letter, of any compact or understanding.

5. It is *not* unneutral for America to "blaze a new way," or to regulate the conduct of her citizens by laws, proclamations or otherwise, even during the progress of a war.

This last assertion has been severely attacked by the advocates of an unlimited trade in death-dealing arms. They have argued

that the Allies would be justified in considering the laying of an embargo on the export of arms to be an unneutral act. The Allies could not claim this, because they themselves have forced several—if not all of the neutral states of Europe—to declare embargoes of various kinds against Germany and Austria *since* the war began.

The case in favor of stopping the traffic in munitions of war, therefore, may be summarized as follows:

1. The government of the United States cannot, either legally or morally, export arms to either of the belligerents.

2. The export of arms by the citizens of the United States has grown to such large proportions that it is known to all.

3. The government of the United States cannot advance the excuse that it is not morally responsible for the acts of its citizens.

4. The president and secretary of state have publicly declared, and asked for votes on the strength of their declaration, that the government has the *right* "to blaze a new way" and that it is not restrained from giving expression in law to the moral sense of right and wrong of the American people.

5. It is, therefore, the right and consequently the duty of the American government to have legislation enacted which will make it legally wrong for individual citizens to commit acts, the moral wrong of which nobody can deny, in view of the decision of the United States Supreme Court quoted above.

6. The present American government itself has acknowledged the moral wrong of the trade in contraband, in the passage quoted above from the Democratic Text Book.

7. It is, therefore, committed to the enactment of legislation—if it has no other means of accomplishing the same end—forbidding the traffic in munitions of war.

## GERMANY AND AMERICAN POLICIES

BY BERNHARD DERNBURG,<sup>1</sup>

Formerly Minister of Colonial Affairs of Germany.

I did not come here except as a listener, but after the discussion of this morning, which, I dare say, has been one of the most interesting, one of the most conservative, that it has been my good fortune to listen to, I feel that it is a debt of gratitude to say something as to the resolution that the previous speaker has just spoken of, regarding the safeguards for a permanent peace. I dare say that, of course details omitted and left open, I am in entire sympathy with it, and I do not think that this matter ought to be left to a Hague convention.

This is a world war and must be followed by a world peace—a permanent one—and I do not think there are now a great many people who do not know what the war means and who will not do everything to avert such a catastrophe in the future.

If I may, with the permission of the presiding officer, I will refer to something that was said last evening. One speaker, discussing the shipping of arms and ammunition, said that Germany had protested against the legality or right of shipping arms and ammunition from this country. He made this statement the subject of an attack against the representatives of this country in the United States. I shall not enter into this question, but I do want to say that a nation should not be attacked in this way. I want to state here most emphatically that Germany at no time has disputed the right to ship or to sell arms. This statement that she has is absolutely false.

Every just endeavor by the United States to extend its trade toward South America meets with sympathy in Germany. We believe that the greater the possibility of free intercourse, that the

<sup>1</sup> Remarks made by Dr. Dernburg at the fourth session of the Nineteenth Annual Meeting of the American Academy held in Philadelphia, on April 30 and May 1, 1915.

richer the people get, the more chance they have to provide themselves—the better off everybody is. We believe in specializing according to the genius of nations. All of us, Americans, English and French, can get along very well together. I have been greatly satisfied by the attitude of this country when at the beginning of the war there came statements from England and Russia that this was a time to steal German trade—You said No, this is not in our line and we are not going to take advantage, except a fair advantage, a competitive merchant advantage, against Germany.

You have been told here that Germany has been selling to these countries her cheap goods and that you in this country could not compete with Germany. You have been told that we have been extending credit beyond what was wise. I think this is an overstatement of the case. Very poor people can buy only very cheap goods. If you go to China and see how poor those people are, you would, I think, see that you could not sell them a suit case for one hundred dollars. You must give them less expensive things, and, if you have confidence, some credit.

As far as imports into South America go, you are in a way able to control them as to size. As for exports from South America, you are not able to control them. Supposing you wanted to extend your trade to Brazil in buying more of her coffee crop? What are you going to do with the coffee? You cannot buy more than you are able to consume. As far as Argentina is concerned, you are sellers of cereals and not buyers. Those who want coffee and those who want cereals have got to buy them from Brazil and Argentina. We cannot detach at any one time the trade between two countries from their intercourse with the rest of the world. This world is just one interdependent, interlocking commercial machine, and whoever loses that conception is bound to make a serious mistake. I want to say this because I believe that even in this commercial world there should be a spirit between nations of a greater friendliness. You cannot assist backward nations without extending some facilities—that is, credit—and you cannot do that without extending friendliness; and as the United States was helped by Europe, I hope that the United States will extend help to South America by allowing credit to her, like the rest of the world.

## FORCE AND PEACE

By H. C. LODGE,  
United States Senator.

In the general Commination service to which Carlyle devoted so much time and space he always found opportunity to hymn the praise of the strong, silent man who looked facts in the face. Very characteristically he dismissed with a sneer the most silent perhaps of all great men, one certainly who looked at the many hostile facts which he encountered in life with a steady gaze, undimmed by illusions, to a degree rarely equalled. I do not mean by this that Washington never spoke, never in speech or writing uttered his thoughts. Many volumes attest the supreme sufficiency of his dealings with all the crowding questions of war and peace which in such victorious manner he met and answered. But there was one subject upon which he held his peace, and that was himself. I once searched every printed line of his printed writings, as well as those of his contemporaries, and all that could be found in regard to the man himself were a few sentences of his own capable of an inference and elsewhere some stray anecdotes. We have his opinions, frank and free, on all the transactions of his life but nothing about himself. There silence reigns and hence he may be called in the truest sense the most silent of the great men of modern times. A very noble quality this, worthy of consideration in any age and especially in an age of much delivery of personal feelings and much self-advertising where publication is easy and passing notoriety extremely cheap. From the many necessary words, however, written and spoken by this most silent man upon all the far-reaching business of his life and about the world of men and things which he touched at so many points there emerge, very luminous and distinct, an unfailing power of looking facts, whether favorable or unfavorable, in the face, a fine freedom from illusions and complete refusal to admit self-deception or to attempt the deception of others. In these days when the readiness to accept words for deeds, language for action and a false or maudlin sentimentality for true sentiment, one of the noblest and purest of human motives; when, I repeat,



the cheerful acceptance of these unrealities seems at least to be extremely prevalent, such veracity of mind and character as that possessed by Washington would appear more than usually worthy of contemplation and imitation.

I am well aware that in saying this I lay myself open to the familiar charge of having nothing to suggest but an effort to make ourselves resemble:

"Some of the simple great ones gone  
Forever and ever by."

I can hear the well worn accusation coming from earnest and intelligent youth, that I am incapable of a new idea. Alas, it must be confessed that any man who has passed middle life would be dull indeed if he was not painfully aware of his incapacity in many directions. He knows that it is to youth he must look for the energy and faith which will keep the waters moving and save the world from stagnation. Whether it is hopeful, happy youth which cries out in the charming words of Miranda,

"How beautiful mankind is! O Brave, new world!  
That has such people in't:"

or Emerson's "fine, young, Oxford gentleman" who declares,

"There's nothing new and nothing true and no matter,"

or earnest youth, serious and sad, which, bending under the sense of responsibility, says with Hamlet,

"The time is out of joint; O cursed spite,  
That ever I was born to set it right;"

all alike are interesting and attractive and awaken a melancholy envy in the breasts of those who have passed through the early shining years which to them are never to return. How keenly do we long to have all those fascinating attributes of the young and wise, to behold again all the fair visions of the morning of life. How we wish we could possess once more, whether as optimists, pessimists, or cynics, the finality, the completeness of judgment, the certainty of decision, the unfaltering condemnation of all who seem to differ with us in which we rejoiced in the days when the limits of life were hidden in the mists of the future. There are no compensations for such losses as these, but the merciless years bring at least their lessons, for they are the most effective if the most severe teachers to all who cannot avoid thought. He, whose

mournful incapacity for the production of new ideas has come sharply home to him, has the added pang of knowing how eagerly he thirsts for those new ideas from others and how much his ability to recognize an old idea has been developed and increased. Setting aside the endless inventions and discoveries of science, he becomes aware of the extreme rarity of really new ideas in all that concerns society and government or the relation of men to each other. He takes up the book of intelligent and earnest youth in which the world is to be set right and after receiving the Rhadamanthine sentence upon himself and his coevals, a sentence from which there is no appeal, he sets out with the hope that springs eternal to find the new ideas for which he longs and which will solve the problems which have for so long pained and troubled him. He reads the book, clever, confident, often ingenious, not marked by a sense of humor, which is an older quality, but sure of everything and splendidly condemnatory of all differences of opinion. Then he lays it down with a sigh of disappointment. The ideas, however tricked out and newly dressed, are old friends with whom he has much more than a bowing acquaintance. They may be new to the writer, but they are old to the reader who has had the misfortune to live longer. So the reader, as so often before, tries to be philosophical and begins to reflect upon the alleviations for his disappointment. In relation to society and government it may be repeated that new ideas are rare; in regard to the latter, perhaps not more than two really large and new ideas have been developed in as many millenniums. Has not all progress, moreover, been attained chiefly by the energy of youth in striving to apply old ideas to changed environments and new conditions? There is comfort in the thought. The only suggestion to be made is that an ardent zeal to reform the world need not necessarily be accompanied by an entire recklessness in dealing with existing arrangements which have slowly been evolved and which represent the thoughts and hopes of mankind to which they have been adapted. It would seem that in making changes and what we believe to be advances by the application of old ideas to altered facts we should do well to remember that the prime factor in our many problems is human nature and that human nature, after all, is very permanent. I do not mean permanent in terms of the universe, which we have reason to think is never at rest, but permanent relatively within the very contracted limits

of man's recorded history. This, by the way, is not a new idea. The best known of Roman poets wrote nearly two thousand years ago, "*Naturam expellas furca, tamen usque recurret,*" and the thought, if ne'er so well expressed, was probably some thousands of years old when Horace wrote it down. Setting aside differences of place and race and time, which are largely superficial and perishable, there is nothing within our knowledge at once so uniform, so widely distributed and so unchanging, as human nature in its broad outlines and fundamental qualities.

A brilliant French critic has said that two great emotions have governed mankind and made his history—love and greed; the one as beautiful as the other is unlovely and potent. Whether these are the only ruling passions need not be discussed but they certainly are examples of two at least of the enduring elements in human nature. The young voices murmuring under the shadows of the great Pyramid in the days of Chefredjef;

"the whispers  
Of plighted youth and maid,  
In April's ivory moonlight  
Beneath the chestnut shade,"

so beloved, we are told, of Venus, did not differ in essence from the words and vows interchanged by maidens and youths in appropriate circumstances under our own superior and more refined civilization. We may also be sure that selfishness has always been an attribute of human nature. I note this here because nations of whose affairs and relations I am about to speak are but aggregations of human beings and therefore selfishness is their attribute also, but with this important difference, that in masses of men it is almost never controlled or conquered by the nobler emotions as it is constantly and very splendidly in the individual man.

So it is that when we come to attempting changes in society or government, it is well to remember that the prime condition of our problem, human nature, is a permanent one and that the past, therefore, whether our guiding idea is most improbably new or is an old idea with a new adjustment, may possibly furnish some useful hints as to the method and outcome of such changes. I know by heart the reply to this suggestion: "Oh, that is all very well, but all these things happened a long time ago and everything is different now." As an objection, this, if I may venture to say so,

has never appeared to me quite conclusive. The Ten Commandments happened a long time ago but that does not seem to justify us in not inculcating them today. It is nearly two thousand years since the beautiful and immortal teachings of the New Testament were given to mankind but no one, I imagine, would suggest that for that reason they should be laid aside. The Epistles of St. Paul, the dialogues of Socrates, the writings and discourses of Plato and Aristotle are all old as finite man computes time, but I should be sorry to dismiss them or refuse to consider them because of their age. The writings of these men dealt with what was most lasting in human nature, with right and wrong, with good and evil, with the highest morals, with things spiritual and things of this world. These thoughts were ancient at their birth and never have grown old. They are always old and always new. So it is with great men, the chosen exemplars of the race of man. Some of them at least have shown qualities which we may do well to study and imitate, which it might be wise to apply to our own problems as they applied them to theirs. Thus, after a long circuit, I come back to where I began. We, most fortunate, have one of these great men, who was also a good man, a very shining figure in the forefront of our nation's life. He dealt with life on a very large scale with high and rare success. One of his most salient qualities was the power of seeing facts just as they existed, without fear or favor, and therefore of meeting them with clear veracity of purpose and with all the strength of mind which had been granted him.

A great quality this, a great power, always much needed, as I have said, in our daily life here in the United States but more particularly demanded at this present moment when the world is facing one portentous and awful fact which has excluded almost everything else from the thoughts of men. For nearly a year that fact has been with us in the form of the most desolating and destructive war which has ever afflicted mankind. In this country, far removed from the scene of strife, with its daily existence flowing on untroubled, with its habits of life unbroken, untouched by the war until the wanton killing of unresisting men and helpless women and children on the Lusitania except in its trade, its commerce and its monetary interests, the great conflict is none the less ever present in our minds. Its dark shadow falls across the pathway which

from day to day is trodden by each one of us. We wake in the morning with that vague sense of trouble which anxiety brings and which defines itself in sharp outline as the merciful oblivion of sleep passes away. Like a personal sorrow there comes between our eyes and the page we read, or the sheet of paper on which we write, a vision of fighting men and blood-stained trenches, of women and children homeless, outraged, mutilated, dead; of the houses of God and man shattered into hideous ruin. Our sympathies have been wakened as never before and have manifested themselves in a generous aid to the suffering across the ocean to a degree never shown by a neutral nation in all the recorded wars of history. To the unhappy and innocent people who in the twinkling of an eye have been deprived of a country and have found themselves cast forth, penniless wanderers upon the earth, we have held out our hands to lift them up with a generous kindness which will always be one of the best memories of the American people. If such has been the effect upon us, far distant, sheltered in our neutrality, how infinitely greater has been the effect upon the nations engaged in war and throughout those wide regions of Europe which for months have resounded with the clash of arms and where the air has been rent by the thunder of cannon and darkened by the dust and smoke of crumbled towns and desolated farms. In the presence of that vast struggle the interests, the habits of the life which seemed so permanent, have disappeared. The fantastic growths in art which absorbed the public attention and sought to make eccentricity pass for originality; the sexual novel, the effort to make us believe that clinical lectures and medical reports were drama, with much else of imaginary importance have withered in Europe before the fierce heat of the struggle of nations for life. The veils of what we call civilization have been torn away. Those conventions, which are merely its manifestations but which we are wont to mistake for fundamental principles, have been flung aside. An unrelenting, a grim reality stares us in the face. If we are to learn anything from it, if we are to do anything to prevent its return, we must first look at it with steady eyes and see just what it is. I am not concerned here with the rights or wrongs, with the guilt or the innocence of those engaged in the war, nor by reality do I mean the horrors of war. Every man and woman who can think knows what those horrors are. Death, destruction, physical anguish, sorrow, misery,

have been before our eyes for months. The vocabulary has been worn out in describing them. There is no need of repeating more exhausted words when all words are vain. What we need to look at is the great dominant fact which stands out in the midst of all the horrors and all the fighting. I read a letter not long since from a young French officer who said that the one thing which filled his mind was not the daily danger and the constant suffering but the return of all about him, on both sides, to the condition of primitive man. In a few weeks they had crossed all the evolution of centuries with its slow upbuilding of civilization and returned to the state of mind which was of immemorial antiquity when the little space covered by our recorded history began. If we pause to think, although we ourselves are not engaged in the struggle, we shall realize that we have felt:

"That jar of our earth, that dull shock  
When the plowshare of deeper passion  
Tears down to our primitive rock."

And now what is it that is disclosed? We can put it all into a sentence. What we see is unchained physical force multiplied beyond computation by all the inventions and discoveries of an unresting science, as potent in destruction as it is in beneficence.

How is such a use of physical force, unlimited in its power, terrible in its consequences, to be avoided? How is peace to be established and maintained hereafter among the nations of the earth? One thing is certain, it cannot be done by words. Nothing will be accomplished by people who are sheltered under neutrality, gathering outside the edges of the fight and from comfortable safety summoning the combatants to throw down their arms and make peace because war is filled with horrors and women are the mothers of men. The nations and the men now fighting, as they believe, for their lives and freedom and national existence know all this better than any one else and would heed such babble, if they heard it, no more than the twittering of birds. In our Civil War when we were fighting for our national life, England and France and other outsiders were not slow in telling us that the Union could not be saved, that the useless carnage ought to cease, that peace must be made at once. Except as an irritating impertinence we regarded such advice as of no more consequence than the squeaking of mice behind the wainscot when fire has seized upon

the house. Neither present peace, nor established peace in the future for which we hope, is helped by fervent conversation among ourselves about the beauties of peace and the horrors of war, interspersed with virtuous exhortations to others who are passing through the valley of the shadow, to give up all they are fighting for and accept the instructions of bystanders who are daring and sacrificing nothing and who have nothing directly at stake. Peace will not come in this way by vain shoutings nor by mere loudness in shrieking uncontested truths to a weary world. No men or women possessed of ordinary sense or human sympathies need arguments to convince them that peace among nations is a great good, to be sought for with all their strength, but the establishment and maintenance of peace cannot be accomplished by language proclaiming the virtues of peace and demonstrating the horrors of war. The many excellent people who may be described as habitual if not professional advocates of peace appear to be satisfied with uttering and listening to speeches about it. They seem to think great advances are made if we put our official names to a series of perfectly empty and foolish agreements which it is charitable to describe as harmless follies, for they weaken and discredit every real treaty which seeks to promote international good will and settle international differences. They are so vain and worthless that, when the hour of stress came, no one would think it worth while even to tear them up. Treaty agreements looking to the peaceful settlement of international disputes and which can be carried out are valuable to the extent to which they go, but treaty agreements which go beyond the point of practical enforcement, which are not meant to be enforced, and which have neither a sense of obligation nor force to sustain that obligation behind them, are simply injurious. If we are to secure our own peace and do our part toward the maintenance of world peace we must put rhetoric, whether in speech or on paper, aside. We must decline to be satisfied with illusions. We must refuse to deceive ourselves or others. We must pass by mere words and vague shows and come clear-eyed to the facts and the realities. The dominant fact today, I repeat, is the physical force now unchained in this great war. Some people seem to think that if you can abolish force and the instruments of force you can put an end to the possibilities

of war. Let us for a moment go to the roots of existing things. Let us make the last analysis.

When I was a very young man I saw a large part of my native city swept away by fire in a single night. The calamity brought with it an enormous destruction of property, of the accumulated savings of years and much consequent suffering, both direct and indirect. What was the cause of this destruction and suffering? There was only one—fire. Not fire from the Heaven above or the earth beneath, but fire produced and used by man, set loose without control. The abolition of fire would undoubtedly have prevented a repetition of this disaster, but no one suggested it. The impossibility of attempting to stop the destruction of life and property through fire by abolishing fire itself was as apparent as its absurdity. Somewhere in the dim unwritten history of man upon earth a great genius, perhaps several great geniuses, discovered the production and control of fire. In the earliest traces of man there is, I think, as yet no proof of his existence without fire, and yet we know that at some period he must have discovered its production and control. Even when we come far down to the little fragment of time covered by man's recorded history we find that the thought of the production and control of fire as the greatest of discoveries still lingered in the human mind and found its expression in the symbolism of the beautiful Promethean myth. Fire, therefore, has probably been with man as his servant for a period which could only be expressed in the vast terms of geology. In large measure, society and civilization rest upon the use of fire. Without it, great spaces of the earth's surface would become not only useless to man but uninhabitable. Without it, the huge and intricate fabric of modern civilization in its present form would not exist. Therefore no argument is needed to convince men that the miseries and misfortunes caused by uncontrolled fire cannot be escaped by the abolition of fire itself. Relief must be sought not in abolition but in a better and wiser control which will render it difficult at least for man's best servant at any time to become his master. It is unchained force with the dread accompaniments of science which is today destroying life and limb, happiness, industry, property, and the joys and beauties of the art and devotion of the dead centuries. Is the terrible problem here presented to be solved by the abolition of the physical force possessed by nations? Go back again to the dark beginnings and study the



comparatively few years, eight or ten thousand at the outside, of which we may be said to have a record.

In the dim light of that remote dawn we see men engaged in an unending conflict with the forces of nature, struggling with the wilderness, with wild beasts, with heat and cold and continually fighting with each other. Gradually they emerge in tribes with leaders, and then come states, communities, kingdoms, empires. But among all these confused events which make up history we find, I think, that the one fact which marks the development of every organized society, whether rude or complicated, of every political entity whether great or small, is the substitution of the will of the community and the protection of the community for the will of the individual and for the self-protection which each man naturally exercises. The one unfailing mark of what, for lack of a better word, we call civilization is this substitution of the force of the community, embodied in law and administered by what we describe as government, for the uncontrolled sporadic force of each individual member of the community. Wherever man is left to his own protection and his own defense there is nothing possible but personal fighting and general anarchy. The man possessed of the greatest physical force and the most effective weapons is the best protected. About him others gather and submit to his leadership and give him their support in return for his protection. Then we have the predatory band which found its highest expression in the feudal system. Gradually one band or lordship conquers or unites with itself other bands or lordships and they establish control over a certain territory; a state emerges, and the process is repeated on a larger scale by the conquest or union of other states. Physical is supplemented by intellectual force and we have at last the kingdom, the great republic or the mighty empire. But under it all lies the replacement of the scattered force of the individual by the consolidated force of the community and power, order, commerce, art and peace, rest in the last analysis upon the force of the community expressed in government of some sort, such government being merely its instrument and manifestation. You may carry your inquiry across the whole range of history and over the earliest human societies of which we have knowledge to the vigilance committees of the far West and you will find that law, order and peace, were brought about by men coming together and exercising the united force of the community, great or

small, in order to put an end to the chaos and disorders of uncontrolled force exercised by each individual. When the civilization and the society reach a high point of organization, the underlying force upon which the entire social and political fabric rests is exerted and is often effective through what may be called merely a symbol. The longest period of general peace covering a large region of the earth of which we have knowledge in historic times was probably that of the Roman Empire, which endured for some three centuries. There was fighting on the widely extended frontiers at intervals diminishing in length as the end approached. After the decline began there were internal wars also at intervals with the imperial purple as the prize, but on the whole through the first three centuries of our era the general condition of the Roman Empire and throughout most of its extent was one of peace. That time is still referred to as the period of the Pax Romana.

In his romance of the "Last Days of Pompeii," Bulwer makes a dramatic point of the Roman sentry motionless at his post while the darkness and the flame and the burning flood were rushing down upon the doomed city. That solitary sentry was the symbol of the force of the Roman Empire. Peace, order and law reigned throughout all western Europe, but it was the gleam upon the sword and corslet of the Roman legionary which made men realize that behind that law and peace and order was the irresistible force of the Empire of Rome. Even before that time the force which the sentry in Pompeii represented found like symbolic expression when the younger Scipio went upon a mission to the eastern kingdoms accompanied by only five servants. He went thus alone in safety and with respect attendant on his footsteps because behind him invisible but ever present was the fighting force of the dreaded Republic.

Let me take a more homely illustration. We have all seen in London and New York police officers stationed at points where the traffic is densest, regulating and guiding its movement by merely raising one hand. They would be perfectly incapable of stopping the vehicles carrying on that traffic, by their own physical force. It could pass over them and destroy them in a moment, and yet it is all governed by the gesture of one man. The reason is simple; the policeman is the symbol of the force of the community against which no individual force can prevail, and of this the great

mass of individuals are thoroughly if unconsciously aware. Law is the written will of the community. The constable, the policeman, the soldier, is the symbol of the force which gives sanction to law and without which it would be worthless. Abolish the force which maintains order in every village, town and city in the civilized world and you would not have peace—you would have riot, anarchy and destruction; the criminal, the violent and the reckless would dominate until the men of order and the lovers of peace united and restored the force of the community which had been swept away. It is all obvious enough, it all rests on human nature, and if there was not somewhere an organized force which belonged to the whole community there would be neither peace nor order anywhere. No one has suggested, not even the most ardent advocates of peace, that the police of our cities should be abolished on the theory that an organization of armed men whose duty it is to maintain order, even if they are compelled often to wound and sometimes to kill for that purpose, are by their mere existence an incitement to crime and violence. If order, peace and civilization in a town, city or state, rest, as they do rest in the last analysis, upon force, upon what does the peace of a nation depend? It must depend, and it can only depend, upon the ability of the nation to maintain and defend its own peace at home and abroad. Turn to the constitution of the United States. In the brief preamble one of the chief purposes of the constitution is set down as provision for the "common defense." In the grant of powers to Congress one of the first powers conferred is to provide for the "common defense of the United States." For this purpose they are given specific powers; to raise and support armies, to provide and maintain a navy, to provide for calling forth the militia, suppressing insurrections and repelling invasions. The states are forbidden to engage in war unless actually invaded, and the United States is bound to protect each of them against invasion and, on their request, to protect them also against domestic violence. In other words, the constitution provides for the maintenance of order at home and peace abroad through the physical force of the United States. The conception of the constitution is that domestic order as well as peace with other nations rests upon the force of the nation. Of the soundness of this proposition there can be no doubt, I think, in the mind of any reasonable man. This obvious principle embodied in the constitution and recognized by every organized govern-

ment in the world is too often overlooked at the present moment in the clamor against armament. The people who urge the disarmament of one nation in an armed world confuse armament and preparation with the actual power upon which peace depends. They take the manifestation for the cause. Armament is merely the instrument by which the force of the community is manifested and made effective, just as the policeman is the manifestation of the force of the municipal community upon which local order rests. The fact that armies and navies are used in war does not make them the cause of war, any more than maintaining a fire in a grate to prevent the dwellers in the house from suffering from cold warrants the abolition of fire because where fire gets beyond control it is a destructive agent. Alexander the Great was bent on conquest and he created the best army in the world at that time, not to preserve the peace of Macedonia but for the purpose of conquering other nations, to which purpose he applied his instrument. The wars which followed were not due to the Macedonian phalanx but to Alexander. The good or the evil of national armament depends not on its existence or its size but upon the purpose for which it is created and maintained. Great military and naval forces created for purposes of conquest are used in the war which the desire of conquest causes. They do not in themselves cause war. Armies and navies organized to maintain peace serve the ends of peace because there is no such incentive to war as a rich, undefended and helpless country, which by its condition invites aggression. The grave objections to overwhelming and exhausting armaments are economic. A general reduction of armaments is not only desirable but is something to be sought for with the utmost earnestness. But for one nation to disarm and leave itself defenseless in an armed world is a direct incentive and invitation to war. The danger to the peace of the world then lies not in armament, which is a manifestation, but in the purposes for which the armament was created. A knife is frequently dangerous to human life, but there would be no sense in abolishing knives because the danger depends solely on the purpose or passion of the individual in whose hand the knife is and not upon the fact that the knife exists. The peace of a nation depends in the last resort, like domestic order, upon the force of the community and upon the ability of the community to maintain peace, assuming that the nation lives up to its obligations, seeks no con-

quest, and wishes only to be able to repel aggression and invasion. If a nation fulfills strictly all its international obligations and seeks no conquest and has no desire to wrong any other nation, great or small, the danger of war can come only through the aggression of others, and that aggression will not be made if it is known that the peace-loving nation is able and ready to repel it. The first step then toward the maintenance of peace is for each nation to maintain its peace with the rest of the world by its own honorable and right conduct and by such organization and preparation as will enable it to defend its peace.

This should be our policy. We should show the world that democracy, government by the people, makes for peace, in contrast to the government of a military autocracy which makes for war. We should demonstrate this by our own conduct, by justice in our dealings with other nations, by readiness to make any sacrifices for the right and stern refusal to do wrong; by deeds, not words, and finally by making the whole world understand that while we seek no conquests we are able to repel any aggression or invasion from without for the very reason that we love peace and mean to maintain it. We should never forget that if democracy is not both able and ready to defend itself it will go down in subjection before military autocracy because the latter is then the more efficient. We must bear constantly in mind that from the conflict which now convulses the world there may possibly come events which would force us to fight with all our strength to preserve our freedom, our democracy and our national life. But this concerns ourselves and will only have the slow moving influence of example. What can be done now? What can we do in the larger sense toward securing and maintaining the peace of the world? This is a much more difficult question, but turn it back and forth as we may there is no escape from the proposition that the peace of the world can only be maintained, as the peace and order of a single community are maintained, as the peace of a single nation is maintained, by the force which united nations are willing to put behind the peace and order of the world. Nations must unite as men unite in order to preserve peace and order. The great nations must be so united as to be able to say to any single country, you must not go to war, and they can only say that effectively when the country desiring war knows that the force which the united nations place behind peace is irresistible.

We have done something in advancing the settlement by arbitration of many minor questions which in former times led to wars and reprisals, although the points of difference were essentially insignificant, but as human nature is at present constituted and the world is at present managed there are certain questions which no nation would submit voluntarily to the arbitration of any tribunal, and the attempt to bring such questions within the jurisdiction of an arbitral tribunal not only fails in its purpose but discredits arbitration and the treaties by which the impossible is attempted. In differences between individuals the decision of the court is final, because in the last resort the entire force of the community is behind the court decision. In differences between nations which go beyond the limited range of arbitrable questions peace can only be maintained by putting behind it the force of united nations determined to uphold it and to prevent war. No one is more conscious than I of the enormous difficulties which beset such a solution or such a scheme, but I am certain that it is in this direction alone that we can find hope for the maintenance of the world's peace and the avoidance of needless wars. Even if we could establish such a union of nations there might be some wars which could not be avoided, but there are certainly many which might be prevented.

It may be easily said that this idea, which is not a new one, is impracticable, but it is better than the idea that war can be stopped by language, by speechmaking, by vain agreements which no one would carry out when the stress came, by denunciations of war and laudations of peace, in which all men agree, for these methods are not only impracticable but impossible and barren of all hope of real result. It may seem Utopian at this moment to suggest a union of civilized nations in order to put a controlling force behind the maintenance of peace and international order, but it is through the aspiration for perfection, through the search for Utopias, that the real advances have been made. At all events it is along this path that we must travel if we are to attain in any measure to the end we all desire of peace upon earth. It is at least a great, a humane, purpose to which, in these days of death and suffering, of misery and sorrow among so large a portion of mankind, we might well dedicate ourselves. We must begin the work with the clear understanding that our efforts will fail if they are tainted with the thought of personal or political profit or with any idea of self-interest or self-

glorification. We may not now succeed, but I believe that in the slow process of the years others who come after us will reach the goal. The effort and the sacrifice which we make will not be in vain when the end in sight is noble, when we are striving to help mankind and lift the heaviest of burdens from suffering humanity.

## UNARMED NEUTRALITY

BY ALBERT BUSHNELL HART,

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The administration at Washington in its policy of neutrality is navigating a foggy sea strewn with rocks, along coasts where the lighthouses have been put out and the buoys changed into floating mines. President Wilson is still manfully trying to use the regular charts of treaties and international law; and insists upon sailing the good old compass courses. In a world full of roarings and vaporings, the United States is the one great power in the world which continues to base its policy upon permanent lines of good will. Even Italy and China, the only other populous nations of the earth which have not been drawn into the war, find their neutrality strained to the utmost by the demands of neighboring powers. Every belligerent has set up some new and strange doctrines of its own in international affairs, put forward in the hope to realize some small and temporary advantage over its military adversaries. While it is not true that international law has for the time being gone into "innocuous desuetude," it is true that the three powers with which we come closest into touch—Great Britain, Germany and France—all make use of what we might call an eclectic international law, choosing the principles that suit them, and filling in the gaps with new ideas of their own.

### *Confusion Worse Confounded*

One reason for the present confusion on this subject is that too much stress has been laid upon documentary international law, such as Hague Conferences, Declarations of London, treaties, and the generalizations of the text writers; and too little attention has been paid to the fundamental reasons why there should be neutrals, neutral rights and neutral trade. Hence an international mix-up. Germany notifies the world that the seizure of provision ships and cargoes is so contrary to all principles of international law, that it justifies the sinking of American merchantmen bound to English ports, without even the opportunity for the crew to escape. Then



in the *Frye* case, the Germans insist that the capture of the cargo of the *Frye* was justified because it was consigned "for orders" to Liverpool, which is a fortified port; and the German presumption was that it was intended for the British government. Germany then turns round and politely promises reparation for the destruction of the vessel because of a treaty of 1828 between Prussia and the United States to which the United States had not alluded. This treaty, by the way, like the Belgian neutrality treaties of 1831 and 1839, was made by Prussia but is recognized as valid by the Empire of Germany; while many German writers have insisted that the Belgian treaties ceased to have binding force when Prussia and other states joined in a federal union.

England is equally illogical. In 1908 that power asked that the question of maritime law in time of war be left out of the Hague discussions, in order that they might be treated in a separate conference in London. The resulting Declaration of London of 1911 was satisfactory to Great Britain and was signed by her representatives, but appears to have been held up by a technicality in the House of Lords. Nevertheless when the present war breaks out, Great Britain announces that she will stand by the Declaration of London; then modifies the list of contraband in that Declaration; again alters that list to the extent of including rubber as contraband, which by the Declaration is declared to be under no circumstances contraband; then throws the whole theory of contraband to the winds by claiming the right to capture any vessel bound to enemy's ports, or cargoes ultimately destined to enemy's territory. This is not so much a "scrap of paper" as a scrap heap of papers.

### *Disturbed Neutrality*

The only way out of this mix-up is for the United States to insist, yesterday, today, and every day to the end of the war, that whatever mean or brutal thing the belligerents may do to each other, the United States stands unmoved upon its right to be a neutral and to act as a neutral. From that safe and sane position, steady efforts have been made to drive the United States. Both continental Eurys and insular Boreas have blown with all their might to deflect the United States from its steady middle course. Englishmen write with grief and disappointment of the unwilling-

ness of the United States to realize that the Allies are fighting the battles of America; and that we ought to come to their aid by land and sea. Their treatment of our neutral ships, however, is not prepossessing. It gives some color for the German charge that the purpose of Great Britain is to get control of all the seas and make the laws of trade for other nations. On the other side, the Germans, officially, unofficially and German-Americanly insist that the United States has made itself one of the allies by furnishing munitions to the enemies of Germany. We are told that the blood of German soldiers killed by shrapnel manufactured in America will cry out against us. Just what would be the legal status of the blood of British soldiers who were killed for the lack of our shrapnel does not distinctly appear! Nor is it plain how to classify the blood of the Servians, killed by German shrapnel fired from Turkish guns in 1912, and from Bulgarian guns in 1913.

Nevertheless, nothing is clearer than that there is a steady accumulation of anger and hostile feeling toward the United States. The English are not altogether displeased that the United States should remain neutral, because they are getting the goods. The United States shows no moral objection to furnishing superior shrapnel to shed the blood of soldiers in any uniform. The English have driven all but one of the German commerce destroyers off the seas; they are feeding and supplying themselves, notwithstanding the German submarine campaign; and they are receiving supplies of food and ammunition from the United States in any desired quantity. It is true that they have accomplished this by their superior naval power, combined with a sublime indifference to their own principles of neutral trade.

The Germans, however, are in a very different case. Quite contrary to their expectations and to the probabilities as shown by the experience of the Southern Confederacy in our Civil War, they have been unable seriously to damage British merchant commerce. Great Britain is relentlessly uprooting neutral commerce, which means substantially the American commerce with Germany and her allies. The English have hoped to starve out the Germans, exactly as the Germans have hoped by battleships, aircraft or submarines, to starve out the British Islands. The consequent frame of mind among thoughtful Germans seems to be not unlike that of thoughtful Northerners during our Civil War. We felt

a sense of passionate resentment against the British people because they were akin to us in civilization, and were supposed to be a lofty and high-minded people who should sympathize with the aspirations of a great nation. The Americans insisted that the British government was bound to take precautions against commerce destroyers, such as it had never taken before. The United States rolled up, and once actually presented, a bill for a thousand million dollars for the prolongation of the war. That fierce feeling, which we now see to be not wholly reasonable, lasted for thirty-five years. It was extinguished only by an apology from Great Britain followed by a so-called arbitration in which Great Britain accepted a hand upon which she must inevitably lose the game. Fifteen and a half million dollars for the Alabama Claims were paid in cash. Still it was not till the Spanish War of 1898 that John Bull again became the favorite cousin.

It looks now as though there would be a similar experience between Germany and the United States. From the first week of the war to the present time the point of view of the most intelligent German subjects in the United States has been that they were unwarrantably deprived of the natural sympathy of the American people. What they expect of the United States government is what we expected of the British government—not a cold impartiality but a decided leaning in their favor. Without insisting on a direct violation of neutrality as a mark of friendship, the Germans have expected that the United States would go to the extreme in their behalf. They would like a prohibition of export of military munition, or, failing that, an embargo like that of 1807 which cut off all exports. They want the American newspapers, universities and chambers of commerce to think that the Germans are in the right; and they feel that a failure so to think must have a malevolent motive. This is a serious state of things for America—one of the most troublesome results of the war; and it is likely to leave behind it a legacy of international irritation.

### *Neutral Obligations*

Nevertheless it is impossible for the United States to avoid this distressing state of things. First because it is not only a bad moral policy to rob Peter in order to pay Paul, but because Paul is likely

to make himself heard on the subject in the future. Still more because it is not the duty of the people of the United States to give either physical or moral support to either side. The woe of Belgium has led the Americans to join in one of the most magnificent outbursts of practical charity ever known to mankind; but if the United States felt itself bound to go to war to defend the neutrality of every neutralized state and strait, it would be in the position of the gendarme in the play written by the boys in a French lycee. The culminating incident is the benevolent gendarme discovering a poor woman on the curbstone.

"What is the matter, my unfortunate one?" he inquires. "Alas, I am so wretched. I have lost my husband, my brothers and sisters, my children. I am homeless, I am starving. I have nowhere to go." "Poor woman, what can I do for you?" says the gendarme. Thereupon a happy thought comes to him. He draws his hanger and stabs himself—you understand, to show his sympathy! A cooler-headed gendarme might have taken the poor woman into the nearest restaurant and revived her with nourishing food and drink, and then he could have rescued another unfortunate on some other day.

The United States has troubles of its own—present and impending—and may thank God that it is outside of the realm of trenches and bombs and poisonous gases. It is the duty of this country to stand solidly and continuously by the great principle that it has a sovereign, national right to stay out of a war just as much as to go into it. We cannot command the great belligerents to lay down their arms, nor can they compel us to take up arms. The United States has an unrivalled opportunity to show that personal sympathies with either side cannot push the government from its consistent duty of preventing military expeditions, or the building of warships or the enlistment of troops, within our boundaries; that it will allow no foreign ships of war to make the United States their base of operation. When the war is over,—for that date also is written in the books of the fates—the United States will have an honorable record in this respect. The difficulties of the Washington government during the Civil War, and its insistence at that time on more than common neutrality on the part of other powers, are the best examples for the present.

*Meaning of Contraband*

In spite of all efforts to befog the issue the United States has a body of neutral rights, to which it is the more entitled because of its care to fulfill its obligations. Those neutral rights do not depend upon treaties, or Hague conventions or the good nature of desperate antagonists. It lies in the nature of human society and the organization of states. The bottom principle in the civilized world is that peace and commercial intercourse are normal among nations; and that no two powers are required to become enemies because one of them is engaged in war. The seizure of the property of belligerents at sea has been a factor in wars for many centuries. If it is an undesirable part of war—which is far from being self-evident—nevertheless it does exist in the year 1915. No matter how ferocious the belligerents have been between themselves, how regardless of the ordinary methods of making war; still their misbehavior carries with it no right to interfere with the relations of the United States to both sides. If my neighbors right and left are engaged in a hullabaloo because the chickens of one stray into the backyard of another, and the other's dog disposes of them; why shall not my children continue to slide down the cellar door of both premises?

We seem to forget that the ships of the United States and other neutrals have the same right to sail the seas and to enter the ports of all the belligerents as though there were no war going on—subject only to the principle that neutrals must not interfere with actual military and naval operations. Mines are now the ordinary defence of seacoasts and neutrals must take every precaution against them when approaching a coast or entering a port, and an area where a sea-fight is going on is not a suitable place for merchant steamers of any kind. With those exceptions there are only two substantial limitations on neutral trade. The first of these is contraband—a term which every student of international law thought he understood until the present war. The reason for seizing contraband is simply that it is a direct participation in land and sea operations. Although by the custom of nations no government is bound to prevent the shipment of contraband, no government will protect it, once outside its ports; or make any reclamation for its capture, if it be truly contraband.

Partly through the attitude of the United States on that ques-

tion in the Civil War, the world has adopted the principle of "continuous voyages," which is in effect that a contraband cargo destined for a belligerent may be seized if on its way to a neutral port.

The crux with regard to contraband is the list of contraband articles. And here the only question is whether the cargoes do actually and directly aid the recipient to carry on hostilities. The suggestion of the English that cotton ought to be contraband because a very small proportion of the cotton shipped might be transformed into explosives is ridiculously far fetched. Copper seems to be a necessity for making of munitions, and perhaps might be added. Petrol is obviously likely under present conditions to be used in the field; but what about steel, without which guns could not be cast and automobiles could not be built? Upon this whole question of the list of contraband the State Department has been weak; for while manfully protesting against delays and exasperations in the proceedings on vessels seized on the basis of contraband, it has never formally protested against the ever expanding British list; it has never clearly applied the touchstone of actual military use to the articles held up by the British; and it has once incautiously admitted the "law of necessity" as a valid reason for altering the ordinary practices of international law.

### *Meaning of Blockade*

In the discussions of blockade, also, there has been a hesitancy to base the position of the United States on the solid ground of the real nature of blockade. It is a common practice of war to invest a port by sea, partly to cut off its commerce, partly to prevent supplies reaching the coast—always as a positive, active military measure. The United States, during the Civil War, captured vessels anywhere on the high seas bound to the ports of the Southern Confederacy, because outside each of those ports it had a competent blockading squadron. Any vessel attempting to enter or to leave that port was therefore directly interrupting the operations then going on, and if captured was good prize.

That was the sort of blockade which it was supposed the immense British fleet would institute against the German coast, and the United States would never for a moment have questioned the capture of ships bound to actually invested ports. For reasons

best known to themselves the British have not thought it prudent to establish such forces off the coast. They do not feel physically able to keep up such a blockade. Having failed therefore in what was supposed to be its obvious method of attack, Great Britain has now declared a blockade which is not a blockade. The use of the word in the British Orders in Council is delusive. And this bitter pill is to be sugared by the declaration that neutral vessels and cargoes which may be bound to belligerent ports shall be captured and then paid for.

The American government has officially admitted to England that "the methods of modern naval warfare . . . may make the former means of maintaining a blockade a physical impossibility." Then instead of drawing the logical deduction that if a blockade is a physical impossibility it can neither be instituted or respected, our government accepts the new kind of blockade, which is practically the closing of the English Channel and the water routes to the north of the British Islands, which had for uncounted ages been the common property of mankind. A neutral vessel entering the North Sea without the consent of Great Britain in no way interferes with British warfare. The action of the British and German governments in declaring areas on the high seas to be "military areas" or "zones of war" has no more justification than it would be to hold that the Straits of Belleisle or the channel between Key West and Cuba were no longer open for American commerce.

### *Protection of Neutral Rights*

To protect these rights which have been so wantonly violated by two great powers is a hard matter. The United States has remonstrated in a manly and dignified tone, though at no time covering the whole ground of just complaint. In the days of the Orders in Council and Decrees, more than a century ago, we learned the stern lesson that appeals to humanity and common sense are of little weight in the midst of such passions. It has been suggested that the remaining neutral powers ought to organize as did Russia, Holland and other European powers in the famous Armed Neutrality of 1781; that they should lay down a program of their rights as neutrals, and insist that the neutrals should respect them. Such joint action would doubtless have some influence, and it would

remain on record as a counsel of perfection. Both Great Britain and Germany in this controversy have argued courteously for the absolute necessity of their behavior as a special measure intended to countervail the awful depravity of the other's action. And Great Britain on the question of the procedure of seizing vessels and prize courts promised amendment which has hardly been carried out. On the essential point, however, of capturing or destroying American merchantmen which have a right to an untroubled voyage, they are alike stubborn. Perhaps sometime a bill for damages may be presented to one or to the other offending power.

Certainly the United States could protest with vastly more effect if it had a navy of the same kind as that of Great Britain and Germany—that is, a navy including a number of fast and massive dreadnoughts, and also including a large flotilla of destroyers and of submarines, and a suitable aerial contingent. The friendship and the trade and good will of the United States are worth having, but not sufficiently so to protect our interests in a time of crisis. The neutrality of the United States has to be maintained with a slender military backing. The United States is standing up as the champion of the neutral world, and is maintaining principles which would otherwise go under. Nevertheless nine months of war have been a sufficient proof that unarmed neutrality is a steam launch in a cyclone. However sound or seaworthy, the most it can expect is to live through the storm.



## SIX ESSENTIALS TO PERMANENT PEACE

BY AUGUST SCHVAN,  
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A year and a half ago The Lord Chancellor of England passed through New York on his return from the meeting of the American Bar Association in Montreal. Before he embarked he said to a reporter that as far as he could see America would fifty years hence become the leading intellectual nation of the world. At that time, I happened to be in Canada and in a Canadian paper I observed the following comment upon Lord Haldane's utterance. "His only excuse," it said, "for not having seen that the U. S. A. already is the leading intellectual nation is that he only passed two days on American soil." The test whether Lord Haldane or the Canadian editor was right will come at the end of this war. It gives to the United States the greatest opportunity for service to humanity which ever was given to any nation. If the United States seizes that opportunity, I believe, with the Canadian newspaper, that the Lord Chancellor of England made a false statement. The whole of his address to the huge meeting of the prominent lawyers who assembled in Montreal centered in the proposition that "Sittlichkeit" ruled the world to a far greater extent than mere law.

Through the events of the last eight months we have been able to somewhat scrutinize the truth of this proposition. Culture and "Sittlichkeit" have received some startling interpretations.

Let me at once add that this German word might very well be translated into the very good English noun "Righteousness" of which Colonel Roosevelt speaks as often as he wants to impose his own standards upon the rest of the world with the help of the armed forces of this great country. He evidently forgets that righteousness can no longer be an outcome of theological conceptions. He overlooks the timely withering away for inspired doctrines as they have been promulgated in the past either by priests or by emperors.

With the birth of the concept of evolution, righteousness can

mean nothing else but adaptation to the environment, taken in its largest meaning, that is to say, embracing not only the whole of nature apart from man but also all those human beings who happen to live on this little planet at the same time.

If this definition of righteousness be granted, as it needs must be by all those who care for scientific truth, the real cause of the awful calamity which at present ravages the earth is easily discernible. The disastrous effect of outlived traditions and sepulchred shibboleths becomes apparent.

As far as war and peace are concerned, mankind is moved by ethical, political and economic considerations. Whatever their specific interrelation may be, they no longer correspond to the actual conditions of life. They have one and all a more or less national basis. They must clearly be out of date when the environment of every single individual is no longer a town, a province, a state or a continent but the whole planet, from which every one of us draws more or less in order to satisfy even the simplest material and mental needs.

The ethical conceptions of the so-called civilized world go back to a time when even the most advanced thinkers thought the earth a pancake with a heaven above and a hell below. Its political conceptions are the direct descendants of the doctrines of Imperial Rome confined to the shores of the Mediterranean and surrounded by unknown hordes of savages. Our economic conceptions are still older. They have an almost prehistoric origin when the secret of steam was hidden in every boiling kettle and the greatest labor unions were innumerable isolated tribes.

Yet the nations of the earth have endeavored to regulate their intercourse according to these time-honored and unborn conceptions. No wonder that they have failed! No wonder that the very men who have striven to replace war by peace have so ignominiously drawn the ridicule of the rest of mankind upon themselves. All the empty talk of the pacifists during the last three decades has accomplished nothing but the ludicrous increase of armaments which led to the European war. Their pious inadvertences made the slumbering military interests take to overstating their case, to overemphasize their importance. Belonging to the circles that had close connections with the governments, sprung from those vested interests which control the majority of the advertising

organs which daily poison the public mind, the spokesmen of armies and navies met the assault of the pacifist with a steadily increasing offensive. The columns of the press were filled with a more intense nationalism than ever before.

At such a time the modern pacifists are proposing to abolish war by the formation of peace leagues, by laying down certain rules for not using the armaments which they are too meek to do away with. What would be thought of anybody who proposed to root out crime by asking the criminals to form societies for not committing murder and burglary and establish certain rules for the use of their implements? How does up-to-date criminal therapeutics proceed? Don't we try to prevent crime by doing away with those causes, with those social conditions as poverty and unwholesome surroundings, which produce criminals?

If we want to see the last of war, we have to proceed in the same manner. The only possible way of abolishing war is to root out nationalism. As long as the pacifists refuse to tackle this side of the question of peace and war, they will continue to "accomplish precisely and absolutely nothing." If we want to make this war the last of all wars, we must preach not internationalism which presupposes nationalism but cosmopolitanism or universalism. We must at once drop all that insidious teaching in nurseries, schools, colleges, universities and on the political platform which arouses the patriotism of the people. We must put those demagogues who want to wield the Big Stick out of commission and let them keep company with those other politicians who don the shining armor and shake the mailed fist, who long to hold the trident and in the meantime carry on their bloody trade with the help of God. Then and only then will we cease to act as slaves of the past and become the gods of that present, which science has and constantly is unveiling for us in all its limitless and matchless possibilities.

The leading statesmen, or let us rather give them their true name, the shouting politicians, have themselves in so many words told us that statesmanship as it has been evolved out of the history of the dim past has played out its nefarious rôle. In every country they have cried out against the madness of armaments. But at the same time they have taken pains to assure their patient hearers that they could do nothing to stop this insane increase in unpro-

ductive expenditure which burdens every shoulder to destitution and poverty before it bleeds it in ghastly misery and deadly suffering. They have declared the bankruptcy of modern statesmanship.

As a matter of fact, the old historical conception of government has rapidly become obsolete. The state, the nation, have no longer any reason to exist as separate entities, to focus men's attention as they did but a generation ago. Today, for the first time in human history, all national frontiers are practically coterminous. The earth harbors no longer any unknown territories from which surprise attacks can be sprung on civilization. The menace is far greater. It comes from within the very walls of civilization. It springs from the fact that I have already mentioned, that our accepted and blindly obeyed ethical, political and economic conceptions no longer correspond to the real conditions of the planetary epoch.

In this, the most wonderful time that mankind has ever seen, there is no need for national governments as hitherto conceived. The need for their appearance and continuance, the desire for knowledge of the unknown surroundings, the desire for expansion, is no longer an absolute necessity. The conquest of the globe has been accomplished. For the first time in its history, mankind knows the ultimate sphere of its action. The whole of the earth is known and this knowledge has been spread to all its parts. Unless we constantly bear this salient message of our time in our minds, we shall never use our magnificent and unique opportunities to their greatest advantage.

This conquest of the globe by knowledge, by science, or whatever we choose to call it, brings with it the foundations for permanent peace and disarmament, provided we draw all the consequences which it implies. The most important is that the national governments no longer should be allowed to retain any functions of sovereignty outside the borders of their respective nations. The time has come when national governments should occupy the same positions as our municipalities. They should simply become administrative boards over such wide areas as the needs of nationality demand.

Then public international law will become as superfluous as it is fictitious. It can be replaced by a code of international behavior so simple, so definite and so concise, as to be the intellectual in-

heritance of all men and women in every clime while that fiction which is commonly supposed to regulate the most momentous intercourse between the nations is known only by a few hundred professors of whom no two agree to the exact meaning of the different stipulations of the international law.

In order to establish this code and thereby secure permanent peace, I would suggest that the coming Peace Congress should eliminate the functions of political government from the field of international relations. Though somewhat hidden from the public, this process has already begun. We are today all aware that practically no idea, no discovery, no invention can for any length of time remain purely a national possession. But how many of you realize that there already exist nearly one hundred and fifty international public unions like the postal union, the sugar commission, the institute of agriculture and other similar institutions where national sovereignty is more or less yielding to cosmopolitan experts.

In order to eliminate political influences from international intercourse, in order to do away with that secret diplomacy which has deluged the annals of mankind with oceans of blood, we have but to proceed further on that road. National sovereignty must at all times and in all circumstances stop at the national borders. The state must cease to be an entity opposed to other states. To reach this goal the general acceptance of six cardinal principles should form the basis of the coming peace treaty.

These six are: the principles of nationality; of universal free trade; of a world citizenship; of a planetary jurisdiction; of an oceanic police; and of a standardization of the national police forces.

The principle of nationality I do not need to discuss. It means that every people shall have the right to have that kind of government that it wants to have or is willing to submit to. It is of the essence of peace that all independent communities should be internally so sympathetic that they are willing to grant to others the same rights which they claim for themselves.

The principle of universal free trade is intimately associated with the principle of nationality. The map of Europe cannot be satisfactorily arranged so long as the policy of tariff walls necessitates the violation of the principle of nationality in order to give land-locked races access to the sea. It would be just as unjust to have

Poles and Bohemians rule over Germans as it is to see the latter have dominance over the former or the Southern Slavs choke under the yoke of Hungary. Universal free trade means the greatest deterrent to war that it is possible to imagine. It means such a specialization, such a diversifying of production, whether industrial or agricultural, that no single area could afford to shut itself off from unhampered intercourse with the rest of the world. Protection has as its moral support the theory that the foreigner should be exploited. Its practical results mean the exploitation of the many by the few who manage to sell their produce at an inflated price behind the Chinese walls which they have raised under the cover of patriotism. It is such an expression of unabashed selfishness that no protectionist should be allowed to talk of justice, righteousness and humanity. On his lips they really are nothing but the worst kind of hypocrisy. With universal free trade, a nation of two million inhabitants will be just as well off as a people of hundred millions because both get the same market, the biggest to be had, the whole earth. Efficiency and industry will reach their proper reward while there will be no reason for conquest in order to enlarge the market. Thus the fallacious cry for a place in the sun will lose much of its driving power.

It will lose all meaning if the principle of a world citizenship is carried out so that every individual, of whatever nationality he may be born, gets the right to be treated everywhere as a full-fledged citizen. The world citizenship means that from the moment anybody is admitted into any country he should in all respects be treated as a citizen of that country. It means that no single individual will put his native country in the absurd position of having to sacrifice thousands and thousands of lives and hundreds of millions of dollars to repair a wrong which if committed within its own borders simply would have resulted in a lawsuit. In relation to those parts of the earth which cannot yet govern themselves, which constitute the white man's burden, the world citizenship should imply the right of admission according to a certain percentage of population. Only thus can the principle of the open door be fully carried out.

If those three principles, of nationality, universal free trade, and world citizenship, are firmly established, diplomacy will become a lost art. Trickery and dishonesty will cease to filter through

the body politic from above. Foreign offices, embassies, legations<sup>s</sup> and consulates can be shut up provided a jurisdiction is brought to play which can adjust all those legal difficulties arising out of planetary intercourse. But this supreme court of courts must receive the same competence as the supreme court of this country which unlike the present Hague Tribunal is open to appeals from individuals. If national sovereignty stops at the national borders, no government as such should logically be able to come before the supreme court of courts.

The majesty of the law would everywhere gain by such a conception. The state as a personality would be dead. There would in fact be no public law. Everyone would see that the pretended opposition between social and individual aims is a result of the shallow thought of pre-evolutionary days.

The supreme court of courts should be composed of the necessary number of judges allowing a world-wide distribution of its numerous divisions. Those judges should in no sense represent the different nations but the best judicial talents to be found all over the earth. Elected according to the number of the population they should be well paid out of a common fund and with a life appointment so as to be perfectly independent of any national ties.

If national sovereignty is really to stop at the national borders, the high seas should be put entirely under the authority of the supreme court of courts. This would materially enhance its importance and daily bring home to millions of people the entity of humanity. To be able to control the highways of commerce, the supreme court of courts must possess a fleet which would constitute the oceanic police. It need not be very large. Some hundred small cruisers manned by sailors from some small nationalities without political, colonial or economic ambitions like Norway and Denmark would suffice. If need be this force will be quite sufficient to make any national government which should refuse to carry out a judgment delivered by the supreme court of courts come to its senses. With universal free trade, the mere possibility that the ships and floating merchandize belonging to such a nation could be seized by the oceanic police, would secure due respect for the planetary jurisdiction.

Then the pretext for national armies and navies is forever gone. No other armed forces than those necessary for keeping law and

order within every independent community should be allowed. In order to prevent secret preparations for warlike action it is, however, advisable that the Peace Treaty should standardize the strength of the national police forces. All armament works should be destroyed. We only require an arsenal at Malta, for the oceanic police, a rifle factory in the United States and an ammunition factory in Australia supplying the police forces of all nations according to a fixed schedule.

This may seem to be nothing but a Utopia. So it would be if peace were a matter of prayer and hope. But fortunately permanent peace is a matter of will and intellect. Let the American people who already represent more than one-eighteenth part of mankind take the firm lead on the basis I have outlined and war will soon be a thing of the past. It is so little inherent in human nature that Europe has had to resort to conscription in order to get enough men to fight the cause of the governments, because at the bottom most men are reasonable human beings as soon as they are freed from superstition and ignorance, prejudice and tradition.



## AMERICA'S POSSIBLE CONTRIBUTION TO THE WORLD'S PEACE

BY OSCAR S. STRAUS,

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Hague.

Any discussion of America's possible contribution to the world's peace must at this time, in the nature of things, be purely speculative and hypothetical. Whether this war will end by the decided victory of the one side or the other, or whether it will be prolonged to a state of exhaustion, or whether, before such a state is reached and in recognition of the probability that such will be the result, the warring nations may come together by their representatives in conference to arrange for the conclusion of the war and for plans to secure by negotiation what they may have failed to secure at the cannon's mouth—these are questions surrounded with so much uncertainty at the present time that no one is justified in forming a definite conclusion.

President Wilson and his administration, animated by the high and noble desire to conserve the moral influence of our country as a mediator and peace-maker, have made and are making every effort to maintain not only a strict attitude of neutrality, but also a spirit of impartiality on the part of our people. To quote the President's words from his recent address to the members of the *Associated Press*:

Let us think of America before we think of Europe, in order that America may be fit to be Europe's friend when the day of tested friendship comes. The test of friendship is not now sympathy with the one side or the other, but getting ready to help both sides when the struggle is over.

And yet with all this effort on the part of our government, which has been consistently urged by the President and followed since the beginning of the war and sometimes in the face of severe provocation, our government's attitude has been misinterpreted, as is evidenced by the press not only in Germany but likewise in Great Britain and in the other belligerent countries. This misinterpretation, fault-finding and even reproof have been officially expressed in a

statement authoritatively given out a short time ago by the German ambassador, protesting against our not observing our neutral obligations. Utterances in some of the leading British papers would indicate that our attitude of neutrality likewise does not satisfy public opinion in that country.

I refer to these facts because the attitude and the disposition toward us of the belligerent nations will have a direct bearing upon what contribution we may be invited or permitted to make in aiding in the establishment of peace among the warring nations and in the development of plans for securing the permanent peace of the world.

There is yet another important consideration which we shall have to determine for ourselves before it will be possible for us to have a part or take a part in devising plans for the peace of the world. The American traditional policy has been expressed in two important state papers, in Washington's farewell address, and in President Monroe's message to Congress, which state papers have a prestige and authority second only to the Declaration of Independence and the Constitution of the United States. Washington, in his farewell address, stated that Europe had "a set of primary interests which to us have none or very remote relations." His thought was, that it was the course of wisdom so far as possible to disassociate America from the ordinary vicissitudes of European politics.

Monroe, in his message, amplified the Washington policy as the changed circumstances and the immediate necessities demanded, by reminding the powers of the Holy Alliance of our policy in regard to European nations, that we would not interfere in their internal concern, and that we would not regard their interference in the affairs of the government of the states on the American continent with indifference. This American policy in its double form was annexed to the signatures of the American delegates to the Hague convention, and was spread on the minutes of the conference, and as such recognized by the nations of the world.

The question, therefore, naturally arises: has America the right to demand participation in the conferences of the belligerent nations following the present war, for the purposes of arranging for the future peace of the world? Another question presents itself: even if we should not have the right, and in the event that we should

be invited by the belligerent nations as the leading neutral power to participate in such a conference, can we do so without impliedly, if not expressly, relinquishing our traditional attitude of exclusive control over purely American questions?

This contingency will bring to the foreground the consideration, if not the wisdom, of a further extension if not a reversing of the American traditional policy as outlined by Washington when he said:

The great rule of conduct for us in regard to foreign nations is in extending our commercial relations to have with them as little political connection as possible. So far as we have already formed engagements, let them be fulfilled with perfect good faith. Here let us stop.

The question that would present itself, have not the world relations and the interdependent interests of nations since Washington's admonition was given, become so closely and intimately related so that our duty to other nations as well as our own "enlightened self-interests" make it imperative upon us not to "stop," but to unite with the nations of the world in such a policy, be it by international agreement, by entering into a league with the leading nations of the world, or by becoming a member of a world federation, or by uniting in such a joint arrangement, as in the wisdom of nations may be determined upon as the most practical and effective for the establishment and maintenance of the peace of the world?

From generation to generation we have been making radical changes in our internal policies, and notably in the direction of the enlargement of the powers of the central government. The Interstate Commerce Laws and the Federal Reserve Act are themselves distinct evidences of those changes. A nation cannot remain stationary any more in its national than in its international relationship and policy. "New occasions teach new duties."

It is not improbable that the outgrowth of this war will affect the future policies not only of the belligerent nations but of neutral nations as well. Norman Angell says that if we do not mix in European affairs, Europe will mix in our affairs, and that the day of isolation for us, whether we like it or not, is over. He may be right. It is much easier for a country when it is small in population and in interests to remain aloof, than when it becomes one of the great powers of the world. Our country with its population of a hundred million and its expanded world commerce is too large a

factor to stand aloof from world questions. In the event of a league or confederation of the leading nations, for us to separate ourselves by refusing to assume our share of responsibility might conflict with our national interests and our international duties and have the result of placing ourselves in opposition to the world policies of the new world-state. In such an event, would it not be better for such a world-state as well as for ourselves to form a part of such a state and help to shape its policies as one of the important constituent members, than to conserve our traditional policies and stand aloof?

These are questions that not unlikely, I might say, very probably, will present themselves to the American government at the outcome of the present war or even before, in contributing its mediatory offices in bringing the war to a conclusion.

Our country has as deep a concern, not only morally, but economically and industrially, in the peace of the world as any one of the larger nations. A war such as this, or upon such a considerable scale, affects under the changed economic and commercial conditions and relationships of modern times the neutral nations only to a lesser degree than the nations actually at war. And, therefore, have we not the right and is it not our duty to coöperate to the fullest of our power in the perfection and the maintenance of a plan for the preservation of peace?

It is to be hoped that the extreme suffering and sacrifice that this war entails may have the compensation of developing supreme wisdom on the part of the nations. The nations of the world, to be at peace, must develop a broader patriotism as distinguished from a national jingoism, a more enlightened sense of justice which does not preach one gospel on one side of a national border and a different or opposite gospel on the other side. In other words, so long as the standards of national justice and international justice are not in consonance but on different levels, and in many respects directly opposed to one another, the security for peace must largely depend upon the doctrine of might. Until the international conscience is brought under the majesty of the law, there can be no permanent security for international peace.

Perhaps the most guiding and impressive contribution that America can make to the world's peace is the successful experiment and example of its federated union of forty-eight separate common-

wealths, which affords to the world a striking illustration that its preservation is due to the fact that behind the *right* of each one of these commonwealths, the smallest as well as the largest, stands the united *might* of all. This greatest of all wars, involving directly nearly two-thirds of the population of the world, is a glaring and ghastly evidence that international relationship has to be reconstructed, that the plans heretofore devised, of nations standing alone or separating themselves into two or three great divisions under dual or triple alliances and ententes, have lamentably broken down, and instead of lessening the area and the horrors of war, have had the opposite result and drawn nations into war that otherwise would have remained at peace.

Therefore, the federation or league of all the states in the American union embodies the ideal, if not the plan, for a universal league or federation of the nations as the surest and safest guarantee for securing the permanent peace of the world. In such a federation power will be needed, not for aggression but to prevent aggression. Power will be needed, not to promote the selfish ends of individual nations but to curb them. Power will be needed, not for making war but for repressing war, for maintaining peace. Power will be needed, not for breaking treaties but for maintaining them; and this power must not be vested in *one*, but in *all* the nations.

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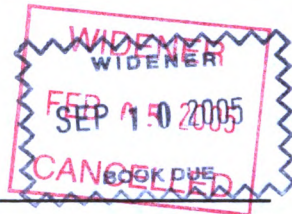


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